

**KENTUCKY UTILITIES COMPANY**

**CASE NO. 2016-00370**

**Response to Attorney General's Initial Data Requests for Information  
Dated January 11, 2017**

**Question No. 249**

**Responding Witness: Adrien M. McKenzie**

- Q-249. Provide copies of all source documents, articles, cited documents listed in footnotes, regulatory decisions, work papers, and other sources used in the development and preparation of the testimony of Mr. McKenzie.
- A-249. With the exception of citations to regulatory and court proceedings, which are publicly available from the respective agencies, copies of the requested information are attached.

ADRIEN M. MCKENZIE WORKPAPERS

INDEX

NO.	Title
WP-1	Moody's Investors Service, "Regulation Will Keep Cash Flow Stable As Major Tax Break Ends," <i>Industry Outlook</i> (Feb. 19, 2014)
WP-2	<i>Alternative Regulation for Emerging Utility Challenges: 2015 Update</i> , Edison Electric Institute (Nov. 11, 2015)
WP-3	Moody's Investors Service, "Credit Opinion: Louisville Gas & Electric Company," <i>Global Credit Research</i> (Dec. 11, 2015)
WP-4	Moody's Investors Service, "Credit Opinion: Kentucky Utilities Company," <i>Global Credit Research</i> (Dec. 11, 2015)
WP-5	Barnato, Katy, "Fed's Plosser: Low rates 'should make us nervous'," CNBC (Nov. 11, 2014)
WP-6	Press Release, Fed. Reserve Sys., Policy Normalization Principles and Plans, (Sept. 17, 2014)
WP-7	Federal Reserve Statistical Release, "Factors Affecting Reserve Balances of Depository Institutions and Condition Statement of Federal Reserve Banks," H.4.1, available at
WP-8	Poole, William, "Prospects for and Ramifications of the Great Central Banking Unwind," <i>Financial Analysts Journal</i> (November/December 2013)
WP-9	Morin, Roger A., "New Regulatory Finance," <i>Public Utilities Reports</i> at 71 (2006)
WP-10	Myron J. Gordon, "The Cost of Capital to a Public Utility," <i>MSU Public Utilities Studies</i> at 89 (1974)
WP-11	Morin, Roger A., "New Regulatory Finance," <i>Public Utilities Reports, Inc.</i> at 298 (2006)
WP-12	Morin, Roger A., "New Regulatory Finance," <i>Public Utilities Reports, Inc.</i> , at 307 (2006)
WP-13	Wolters Kluwer, <i>Blue Chip Financial Forecasts</i> , Vol. 35, No. 6 (Jun. 1, 2016)
WP-14	<i>Morningstar</i> , "Ibbotson SBBI 2015 Classic Yearbook," at pp. 99, 108.
WP-15	Morin, Roger A., "New Regulatory Finance," <i>Public Utilities Reports</i> at 189 (2006)
WP-16	Brigham, E.F., Shome, D.K., and Vinson, S.R., "The Risk Premium Approach to Measuring a Utility's Cost of Equity," <i>Financial Management</i> (Spring 1985)
WP-17	Harris, R.S., and Marston, F.C., "Estimating Shareholder Risk Premia Using Analysts' Growth Forecasts," <i>Financial Management</i> (Summer 1992)
WP-18	Morin, Roger A., "New Regulatory Finance," <i>Public Utilities Reports</i> , at 128 (2006)
WP-19	Brigham, E.F., Aberwald, D.A., and Gapenski, L.C., "Common Equity Flotation Costs and Rate Making," <i>Public Utilities Fortnightly</i> , May, 2, 1985

## ADRIEN M. MCKENZIE WORKPAPERS

### INDEX

WP-20	Morin, Roger A., “New Regulatory Finance,” <i>Public Utilities Reports, Inc.</i> (2006) at 335
WP-21	Morin, Roger A., “New Regulatory Finance,” <i>Public Utilities Reports, Inc.</i> (2006) at 323
WP-22	<i>Application of Yankee Gas Services Company for a Rate Increase</i> , DPUC Docket No. 04-06-01, Direct Testimony of George J. Eckenroth (Jul. 2, 2004) at Exhibit GJE-11.1
WP-23	Value Line Investment Survey, <i>Forecast for the U.S. Economy</i> (Sep. 2, 2016)
WP-24	IHS Global Insight, <i>The U.S. Economy: The 30-Year Focus</i> (Apr. 6 & Jun. 27, 2016)
WP-25	Energy Information Administration, <i>Annual Energy Outlook 2016 Early Release</i> (May 17, 2016)
WP-26	Value Line <i>Summary &amp; Index</i> (Oct. 28, 2016)
WP-27	Value Line Source Documents – Electric Group
WP-28	IBES Source Documents – Utility Group
WP-29	Zacks Source Documents – Utility Group
WP-30	Value Line Source Documents – Non-Utility Group
WP-31	IBES Source Documents – Non-Utility Group
WP-32	Zacks Source Documents – Non-Utility Group
WP-33	Duff & Phelps, “2016 Valuation Handbook – Guide to Cost of Capital,” John Wiley & Sons (2016) at Table 7.3
WP-34	Utility Risk Premium – Regulatory Research Assoc. data 1973-2015

## US Regulated Utilities

# Regulation Will Keep Cash Flow Stable As Major Tax Break Ends

Our outlook for the US regulated utility industry is stable. This outlook reflects our expectations for the fundamental business conditions in the industry.

- » **Cost-recovery mechanisms, coupled with annual base-rate increases, will keep the ratio of industry-wide cash flow to debt at about 18%, within our range for a stable outlook.** Favorable rate orders are part of what we view as a broader shift toward stronger regulatory support for the industry, all the more important this year given the end of bonus depreciation. Industry regulation is the most important driver of our outlook.
- » **Ratemaking mechanisms, such as revenue decoupling and riders, allow utilities to recover costs faster and improve the quality, predictability and stability of cash flow.** The ratio of cash flow to gross profit for a peer group of 122 US operating companies has been more stable on a year-over-year basis since 2009, as the use of riders in regulatory agreements has become more commonplace.
- » **We are also seeing signs of improved regulatory support in historically contentious states, such as Connecticut and Illinois.** Stronger recovery mechanisms put in place last year for [Connecticut Natural Gas Corp.](#) (A3 stable) and [Commonwealth Edison Co.](#) (Baa1 stable) in Illinois will likely make cash flow more predictable for utilities in each state. This marks a turnaround in both states, where regulatory support was lacking for certain cost-recovery provisions in the past.
- » **Stagnant customer demand is leading some utilities to pursue shareholder growth through financial engineering.** Some companies are restructuring their businesses by creating master limited partnerships and “yieldcos” to defend their historically high equity multiples. For now, credit risks are limited but so are any benefits for bondholders, and these structures may weaken sponsor credit quality over time.
- » **What could change our outlook.** We could shift our outlook to positive if the ratio of cash flow to debt rose toward 25% on a sustainable basis, which could happen if return on equity rises or utilities deleverage significantly. A more contentious regulatory environment that resulted in a material deterioration in cash flow, such that the ratio fell to 13%, could cause us to have a negative outlook.



## Supportive regulatory relationships drive our stable outlook

Regulatory support will help US electric and gas utilities maintain stable credit profiles in 2014, even with stagnant customer demand and without the cash-flow boost from bonus depreciation.

Fundamentally, the regulatory environment is the most important driver of our outlook because it sets the pace for cost-recovery. Favorable rate orders, even in states where utilities have had contentious regulatory relationships in the past, are part of what we view as a broader shift toward stronger regulatory support for the industry.

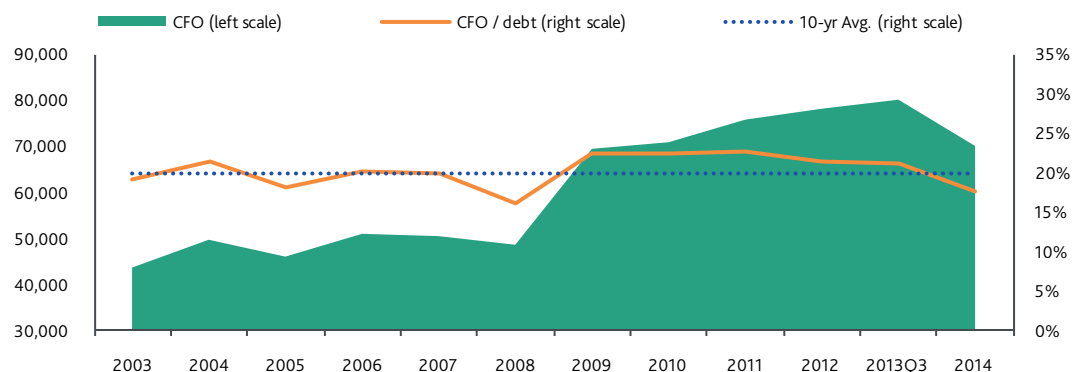
The improved regulatory framework, led by special cost-recovery mechanisms and annual base-rate increases, is all the more important this year for two reasons. First is the end of bonus depreciation, a temporary tax break that expired on December 31. We incorporate a view that bonus depreciation will not be extended; however, various corporate sectors are currently lobbying for the extension in 2014. Second is stagnant customer demand, which is also leading some utilities to pursue shareholder growth through financial engineering (please see page 6).

As Exhibit 1 shows, the ratio of cash flow to debt will decline this year to 18%, just below the 10-year trend line but within our range for a stable outlook. The decline is largely because of higher cash taxes, but utilities can still get some tax relief in 2014 by applying net operating loss carry-forwards (from factors unrelated to bonus depreciation) from past years to this year's tax payments—an option they didn't use when bonus depreciation was in effect.

We would likely shift our outlook to positive if the ratio of cash flow to debt rose to 25%, although that would take a marked increase in regulatory-allowed ROE levels or steps by utilities to scale back their dividend and stock-repurchase plans. A more contentious regulatory environment or a widespread adoption of more-aggressive financial strategies resulting in a material deterioration in cash flow, such that the ratio fell to 13%, would likely lead to a negative outlook.

EXHIBIT 1

### Cash Flow to Debt Will Hover Below the 10-Year Average



Notes: Figures are in thousands of US dollars. A list of the 122 utilities included in our analysis starts on page 7. Data for the third quarter of 2013 are the latest available. Data for 2014 are our estimates.

Source: Moody's Investors Service

## Improved regulatory environment means stable, more predictable cost-recovery

The US regulatory environment has improved significantly in the past year, providing for faster and more-certain cost-recovery in 2014.

[Puget Sound Energy Inc.](#)'s (PSE; Baa1 stable) June 2013 rate order is a good example. Its regulator, the Washington Utilities and Transportation Commission, approved the decoupling of electric and gas revenue from sales volume, and a property-tax tracker that provides more-efficient recovery of property-tax expense. The commission acknowledged a need to reduce regulatory lag times by expediting the utility's rate filings and offering more real-time true-up of costs during rate filings. The regulator also provided the company with forward-looking annual revenue adjustments (about 3% for electric and 2% for gas) over the next three years. As a result of these changes, we expect that Puget Sound's cash-flow-to-debt ratio will continue to surpass 20%, exceeding the industry average, even without the cash-flow benefit of bonus depreciation.

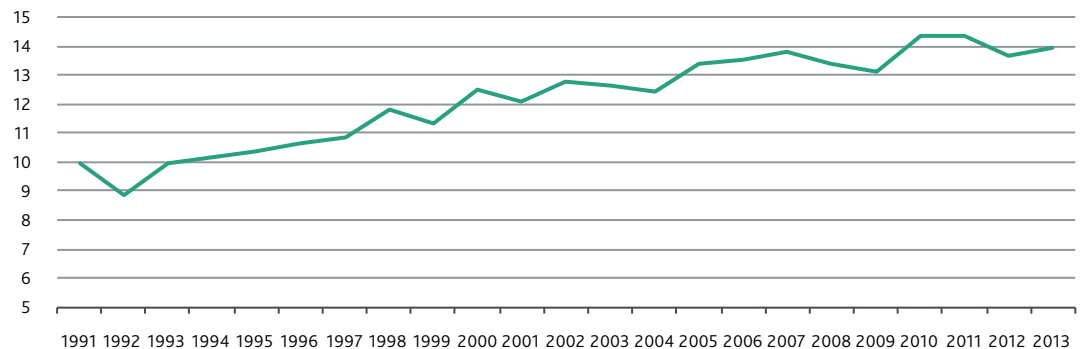
Another example is [Westar Energy Inc.](#)'s (Baa1 stable) 2013 abbreviated rate case with the Kansas Corporation Commission. In addition to providing incremental cost-recovery for environmental upgrades, the regulator allowed Westar to increase its monthly fixed charge on customer bills. This movement in rate design will allow Westar to recover a greater portion of its fixed costs through fixed rates, rather than volumetric rates, thereby reducing Westar's dependency on selling higher volumes to recover fixed costs. The shift to a \$12 residential monthly fixed charge from \$9 will be a benefit amid flat customer demand in Kansas over the past three years (see Exhibit 2).

### EXHIBIT 2

#### Demand for Electricity Has Been Stagnant in Kansas

Actual Consumption

Kansas Residential Electricity  
Consumption, TWh



Notes: TWh stands for terawatt hour. 2013 US Energy Information Administration (EIA) data are through October 2013. Our estimates for November and December 2013 are based on historical trends.

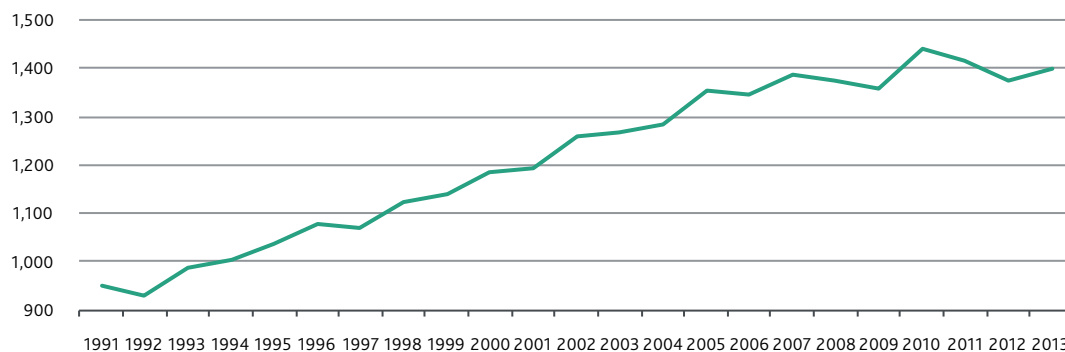
Source: US Energy Information Administration

As demand for electricity wanes, rate structures that are tied more closely to volumetric charges than to fixed charges will threaten the gross profits of most electric and gas utilities. Exhibit 3 below shows the drop-off in US electricity demand since 2010, largely attributable to weather and slow economic growth as well as conservation and efficiency measures.

EXHIBIT 3

**Demand for Electricity Is Slow to Rebound**

Actual Consumption

US Residential Electricity  
Consumption, TWh

Note: 2013 EIA data is through October 2013. Our estimates for November and December 2013 are based on historical trends.

Source: US Energy Information Administration

The industry's financial profile is becoming more predictable and steady because of these special recovery mechanisms that supplement cash recovery between general rate cases. As Exhibit 4 shows, the average ratio of cash flow from operations to gross profit had a standard deviation of 2.4% on a year-over-year basis between 2003 and 2008. This compares with a 1.1% standard deviation on average between 2009 and the third quarter of 2013, the latest data available, a period marked by a more pervasive use of cost-recovery mechanisms throughout the US.

EXHIBIT 4

**Cost-Recovery Mechanisms Make Cash Flow More Predictable**

Year	CFO / Gross Profit	Standard Deviation Rolling Two-Year Average	Average Standard Deviation
2003	30.9%		
2004	37.0%	4.3%	
2005	34.0%	2.1%	
2006	37.3%	2.4%	
2007	34.9%	1.7%	
2008	32.9%	1.4%	2.4%
2009	44.9%		
2010	42.5%	1.7%	
2011	44.8%	1.6%	
2012	44.3%	0.3%	
3Q13	43.0%	0.9%	1.1%

Note: The latest data available are for the third quarter of 2013.

Source: Moody's Investors Service

## Cost-recovery improves, but not without exceptions

Most regulated electric and gas utilities in the US have shown evidence of improved regulatory relationships. Apart from Puget Sound's and Westar's cost-recovery improvements, we have seen regulatory improvement in Illinois and Connecticut, states in which the relationships between regulators and utilities have been somewhat contentious.

Stronger recovery mechanisms put in place late last year in both Illinois and Connecticut will make utility cash flow more predictable. For example, in Illinois, **Commonwealth Edison's** (ComEd) cash flow to debt coverage will start improving in 2014, supported by the adoption of a version of formula ratemaking (i.e., the Energy Infrastructure Modernization Act, or "EIMA," which helps define various aspects of rate structure and cost-recovery in Illinois). The implementation of EIMA will make cost-recovery more tied to factors determined by a formula and less tied to rate-case negotiations (the results of which are less predictable).

Similarly, the Connecticut legislature in 2013 passed the Comprehensive Energy Strategy, which encourages the use of decoupling mechanisms and infrastructure replacement riders (i.e., the Distribution Integrity Management Program, or DIMP), while promoting growth of local distribution companies (LDCs) through customer conversions. These measures are subject to approval by the Public Utilities Regulatory Authority in rate-case proceedings, but were approved in **Connecticut Natural Gas's** (CNG; A3 stable) December 2013 rate case. We expect decoupling, DIMP and conversion incentives to be applied to all LDCs in the state going forward.

These moves mark a turnaround in both states from past years, when regulatory support was lacking for certain cost-recovery provisions and when general rate case outcomes were deemed less than favorable from an investor perspective. For example, the Illinois legislature passed the EIMA in 2011, but the Illinois Commerce Commission did not fully implement it, initially, which made future cost-recovery for ComEd uncertain. Likewise, Connecticut LDCs had few tracking mechanisms and were exposed to declining customer usage in rate design. Now, through the adoption of EIMA in ComEd's rate structure (clarified by Senate Bill 9 in 2013) and CNG's implementation of decoupling and the DIMP, the financial profiles of both companies will likely improve.

These cost-recovery improvements are part of the broader trend we are seeing in the industry, but there are a few high-profile exceptions. [Entergy Corp.](#) (Baa3 stable), which has a history of contentious regulatory relationships in Arkansas and Texas, is one example.

Last year, [Entergy Arkansas Inc.](#) (Baa2 stable) put forth a nearly \$145 million rate request but received about \$81 million (the Arkansas Public Service Commission did allow a new cost-recovery rider for certain regional transmission expenses, however). [Entergy Texas Inc.](#) (Baa3 stable) requested about \$53 million in rate increases for 2014, but the Texas Public Utilities Commission's (PUC) staff recommended a rate increase of a little more than \$3 million. The PUC has not issued a final decision.

Another high-profile exception is [Consolidated Edison of New York's](#) (A2 stable) pending rate settlement, which calls for a two-year freeze on electric rates and a three-year rate freeze on gas and steam rates. Although the rate freeze would curb Consolidated Edison of New York's earnings, the settlement is credit neutral because of the provision for reasonable recovery of deferred storm costs related to Hurricane Sandy and other investments.

This year, one utility that might also buck the positive trend is [Jersey Central Power & Light Co.](#) (JCP&L; Baa2 negative). JCP&L has been the target of public criticism over its handling of outages related to Hurricane Sandy, besides allegations of over-earning. The staff of the New Jersey Board of Public Utilities has proposed that base rates be cut by \$207 million (not considering recovery of storm costs, which will be addressed in a separate rate proceeding). This compares with the company's request for an increase of \$11 million (again, not considering storm costs).

JCP&L's financial flexibility and financial metrics have already been weakened by costs associated with Hurricane Sandy, so a material rate reduction could hurt JCP&L's rating. If JCP&L can bring its ratio of cash flow to debt to at least 14% despite a rate decrease, then our rating outlook could stabilize. JCP&L had 12% cash flow to debt through the 12 months ended the third quarter of 2013.

### More utilities are turning to financial engineering

Against a backdrop of stagnant demand, some utility holding companies are turning to forms of financial engineering, such as creating master limited partnerships (MLPs) and so-called yieldcos, to defend their historically high equity multiples. For the few companies that have proceeded with these strategies so far, the credit impact is neutral because the vehicles are small relative to the corporate sponsor's consolidated credit profile. But longer term, credit risks could increase if these companies eventually lose too much cash flow from their most stable assets and don't reduce debt enough to rebalance their capital structures.

We expect some more companies to go public with these financial-engineering vehicles this year. The joint venture among OGE, CenterPoint and ArcLight—the Enable Midstream Partners MLP—plans to complete an initial public offering in the first quarter. [Dominion Resources Inc.](#) (Baa2 stable) expects to publicly offer its MLP by mid-year. In addition, [NextEra Energy Inc.](#) (Baa1 stable) expects to make a decision whether to form a yieldco by then.

Meantime, several companies have pursued acquisitions outside of their core utility holdings and service territories, like [MidAmerican Energy Holdings Co.](#) (A3 stable), [TECO Energy Inc.](#) (Baa1 stable), and [Avista Corp.](#) (Baa1 stable). This trend is bound to continue as companies try to expand their regulated footprint and achieve regulatory diversity. We expect that most M&A activity in 2014 will be conservatively financed much like these transactions, which included equity financings.

#### EXHIBIT 5

#### Regulated Utilities: M&A Activity

Acquirer / Acquiree	Acquirer			Acquiree			Financing	Credit Implication
	Revenue	CFO	Debt	Revenue	CFO	Debt		
MidAmerican Energy Holdings Co. / NV Energy, Inc.	\$12,373	\$505	\$4,255	\$2,930	\$794	\$5,125	\$5.6 billion in debt & equity	Positive; no ratings actions
TECO Energy, Inc. / New Mexico Gas Company	\$2,851	\$680	\$3,156	\$332	\$65	\$250	\$950 million in debt, equity, & cash	Affirmed TECO Energy ratings
Avista Corp / Alaska Energy and Resources Company (AERC)	\$1,581	\$295	\$1,739	\$42	\$20	\$115	\$170 million in equity	Neutral for Avista
Fortis, Inc. / UNS Energy Corporation	\$3,654	\$976	\$5,783	\$1,483	\$400	\$1,937	\$4.3 billion in debt & equity	Slightly positive for UNS Energy Corporation; no ratings action

Notes: Financials are in millions, as of the 12 months ended September 30, 2013. AERC financials are based on Alaska Electric Light and Power Co. (AELP) 2012 FERC Form 1 data. Fortis and New Mexico Gas financials are as reported as of fiscal 2012. We expect TECO Energy will assume \$200 million of debt already existing at New Mexico Gas Company. We expect Fortis to assume approximately \$1.8 billion of debt already existing at UNS Energy Corporation. In addition, we expect Fortis to finance the UNS acquisition in a manner similar to historical precedent, with a balanced mix of debt and equity issued upstream from the utility (we expect Fortis to keep UNS's current capital structure in place).

Sources: Fortis Inc. Annual Report, AELP 2012 FERC Form 1, SNL, Moody's Financial Metrics

## Appendix: Peer Group

## Moody's Financial Metrics

	Entity Name	LT Rating	Outlook	CFO/Debt (3-Yr Avg) LTM 3Q11- LTM3Q13
Integrated	Alabama Power Company	A1	Stable	26%
	ALLETE, Inc.	A3	Stable	22%
	Appalachian Power Company	Baa1	Stable	17%
	Arizona Public Service Company	A3	Stable	28%
	Avista Corp.	Baa1	Stable	18%
	Black Hills Power, Inc.	A3	Stable	22%
	Cleco Power LLC	Baa1	Positive	19%
	Consumers Energy Company	(P)A3	Stable	27%
	Dayton Power & Light Company	Baa3	Stable	34%
	DTE Electric Company	A2	Stable	24%
	Duke Energy Carolinas, LLC	A1	Stable	23%
	Duke Energy Corporation	A3	Stable	15%
	Duke Energy Florida, Inc.	A3	Stable	21%
	Duke Energy Indiana, Inc.	A2	Stable	16%
	Duke Energy Kentucky, Inc.	Baa1	Stable	23%
	Duke Energy Ohio, Inc.	Baa1	Stable	25%
	Duke Energy Progress, Inc.	A1	Stable	23%
	El Paso Electric Company	Baa1	Stable	25%
	Empire District Electric Company (The)	Baa1	Stable	20%
	Entergy Arkansas, Inc.	Baa2	Stable	19%
	Entergy Louisiana, LLC	Baa1	Stable	17%
	Entergy Mississippi, Inc.	Baa2	Stable	16%
	Entergy New Orleans, Inc.	Ba2	Stable	20%
	Entergy Texas, Inc.	Baa3	Stable	14%
	Florida Power & Light Company	A1	Stable	32%
	Georgia Power Company	A3	Stable	25%
	Gulf Power Company	A2	Stable	26%
	Hawaiian Electric Company, Inc.	Baa1	Stable	17%
	Idaho Power Company	A3	Stable	16%
	Indiana Michigan Power Company	Baa1	Stable	21%
	Interstate Power and Light Company	A3	Stable	18%
	Kansas City Power & Light Company	Baa1	Stable	18%
	Kansas City Power & Light Company - Greater MO	Baa2	Stable	22%
	Madison Gas and Electric Company	A1	Stable	30%
MidAmerican Energy Company	A1	Stable	24%	
Mississippi Power Company	Baa1	Stable	14%	
Nevada Power Company	Baa1	Stable	18%	

	Entity Name	LT Rating	Outlook	CFO/Debt (3-Yr Avg) LTM 3Q11- LTM3Q13
	Northern States Power Company (Minnesota)	A2	Stable	25%
	Northern States Power Company (Wisconsin)	(P)A2	Stable	30%
	NorthWestern Corporation	A3	Stable	19%
	Ohio Power Company	Baa1	Stable	32%
	Oklahoma Gas & Electric Company	A1	Stable	27%
	Otter Tail Power Company	A3	Stable	24%
	Pacific Gas & Electric Company	A3	Stable	25%
	PacifiCorp	A3	Stable	23%
	Portland General Electric Company	A3	Stable	25%
	Public Service Co. of North Carolina, Inc.	A3	Stable	25%
	Public Service Company of Colorado	A3	Stable	23%
	Public Service Company of New Hampshire	Baa1	Stable	20%
	Public Service Company of New Mexico	Baa2	Positive	21%
	Public Service Company of Oklahoma	A3	Stable	27%
	Puget Sound Energy, Inc.	Baa1	Stable	21%
	San Diego Gas & Electric Company	A1	Stable	21%
	Sierra Pacific Power Company	Baa1	Stable	16%
	South Carolina Electric & Gas Company	Baa2	Stable	17%
	Southern California Edison Company	A2	Stable	30%
	Southern Indiana Gas & Electric Company	A2	Stable	28%
	Southwestern Electric Power Company	Baa2	Stable	18%
	Southwestern Public Service Company	Baa1	Stable	21%
	Tampa Electric Company	A2	Stable	32%
	Tucson Electric Power Company	Baa1	Stable	19%
	Union Electric Company	(P)Baa1	Stable	22%
	UNS Energy Corporation	Baa2	Stable	19%
	Virginia Electric and Power Company	A2	Stable	27%
	Westar Energy, Inc.	Baa1	Stable	16%
	Wisconsin Electric Power Company	A1	Stable	17%
	Wisconsin Power and Light Company	A1	Stable	31%
	Wisconsin Public Service Corporation	A1	Stable	26%
T&Ds	AEP Texas North Company	Baa1	Stable	22%
	Ameren Illinois Company	(P)Baa1	Stable	26%
	Atlantic City Electric Company	Baa2	Stable	15%
	Baltimore Gas and Electric Company	A3	Stable	19%
	CenterPoint Energy Houston Electric, LLC	A3	Stable	16%
	Central Hudson Gas & Electric Corporation	A2	Stable	29%
	Central Maine Power Company	A3	Stable	27%
	Cleveland Electric Illuminating Company (The)	Baa3	Stable	15%
	Commonwealth Edison Company	Baa1	Stable	21%

	Entity Name	LT Rating	Outlook	CFO/Debt (3-Yr Avg) LTM 3Q11- LTM3Q13
	Connecticut Light and Power Company	Baa1	Stable	13%
	Consolidated Edison Company of New York, Inc.	A2	Stable	23%
	Delmarva Power & Light Company	Baa1	Stable	17%
	Duquesne Light Company	A3	Stable	26%
	Jersey Central Power & Light Company	Baa2	Negative	18%
	New York State Electric and Gas Corporation	A3	Stable	26%
	Niagara Mohawk Power Corporation	A3	Stable	23%
	NSTAR Electric Company	A2	Stable	29%
	Ohio Edison Company	Baa2	Stable	25%
	Oncor Electric Delivery Company LLC	Baa3	Stable	20%
	Orange and Rockland Utilities, Inc.	A3	Stable	21%
	PECO Energy Company	A2	Stable	30%
	Pennsylvania Electric Company	Baa2	Stable	18%
	Pennsylvania Power Company	Baa2	Stable	37%
	Potomac Edison Company (The)	Baa3	Stable	19%
	Potomac Electric Power Company	Baa1	Stable	16%
	Public Service Electric and Gas Company	A2	Stable	25%
	Rochester Gas & Electric Corporation	Baa1	Stable	26%
	Texas-New Mexico Power Company	Baa1	Positive	26%
	Toledo Edison Company	Baa3	Stable	8%
	United Illuminating Company	Baa1	Stable	20%
	West Penn Power Company	Baa2	Stable	25%
	Western Massachusetts Electric Company	A3	Stable	23%
LDCs	Atlanta Gas Light Company	A2	Stable	30%
	Atmos Energy Corporation	A2	Stable	23%
	Berkshire Gas Company	Baa1	Stable	29%
	Connecticut Natural Gas Corporation	A3	Stable	26%
	DTE Gas Company	Aa3	Stable	24%
	Indiana Gas Company, Inc.	A2	Stable	27%
	Laclede Gas Company	(P)A3	Stable	26%
	New Jersey Natural Gas Company	(P)Aa2	Stable	19%
	Northern Illinois Gas Company	A2	Stable	49%
	Northwest Natural Gas Company	(P)A3	Stable	20%
	Piedmont Natural Gas Company, Inc.	A2	Stable	23%
	Questar Gas Company	A2	Stable	25%
	SEMCO Energy, Inc.	Baa1	Stable	15%
	SourceGas LLC	Baa2	Stable	14%
	South Jersey Gas Company	A2	Stable	21%
	Southern California Gas Company	A1	Stable	32%
	Southern Connecticut Gas Company	Baa1	Stable	22%



Entity Name	LT Rating	Outlook	CFO/Debt (3-Yr Avg) LTM 3Q11- LTM3Q13
UGI Utilities, Inc.	A2	Stable	27%
UNS Gas, Inc.	Baa1	Stable	27%
Washington Gas Light Company	A1	Stable	35%
Wisconsin Gas LLC	A1	Stable	28%
Yankee Gas Services Company	Baa1	Stable	18%

Source: Moody's Investors Service

## Moody's Related Research

### Industry Outlooks:

- » [US Regulated Utilities: Regulation Provides Stability as Business Model Faces Challenges, July 2013 \(156754\)](#)
- » [US Regulated Utilities: Regulatory Support, Low Natural Gas Prices Maintains Stability, February 2013 \(149379\)](#)
- » [US Unregulated Power: Headwinds continue for the merchant power players, July 2013 \(156302\)](#)
- » [US Coal Industry Outlook Stabilizes as Business Conditions Hit Bottom, August 2013 \(157309\)](#)
- » [Global Oil & Gas: Persistent High Oil Prices Keep Industry Robust, but Global Supply Increasing \(Summary\), December 2013 \(160980\)](#)

### Special Comment:

- » [US utility sector upgrades driven by stable and transparent regulatory frameworks, January 2014 \(163726\)](#)
- » [YieldCos: Fantastic for Shareholders; Less So for Bondholders, November 2013 \(160121\)](#)
- » [Planned Capital Expenditures Set to Fall in 2015, And Modestly Decline Thereafter, October 2013 \(158945\)](#)
- » [US Telecommunications and Regulated Utilities: End of Bonus Depreciation Could Prompt Cuts in Capital Spending, Dividends, September 2013 \(157572\)](#)
- » [US Local Gas Distribution Companies: Lower risks and unique growth opportunities versus electric utility peers, May 2013 \(153018\)](#)
- » [The Prospect of US LNG Exports Influences Pricing and Gas Markets Worldwide, May 2013 \(151819\)](#)
- » [US Extends Tax Credit for Wind Power, a Credit Positive for Developers and Utilities, January 2013 \(148915\)](#)

### Rating Methodology:

- » [Regulated Electric and Gas Utilities, December 2013 \(157160\)](#)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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# Alternative Regulation for Emerging Utility Challenges: 2015 Update

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## Contents

<b>I. Introduction.....</b>	<b>1</b>
<b>II. Cost Trackers.....</b>	<b>6</b>
<b>III. Relaxing the Link Between Revenue and System Use.....</b>	<b>17</b>
A. Lost Revenue Adjustment Mechanisms .....	17
B. Revenue Decoupling .....	17
C. Fixed/Variable Pricing .....	21
<b>IV. Forward Test Years .....</b>	<b>31</b>
<b>V. Multiyear Rate Plans .....</b>	<b>34</b>
<b>VI. Formula Rates .....</b>	<b>47</b>
<b>VII. Marketing Flexibility.....</b>	<b>52</b>
<b>VIII. Conclusions .....</b>	<b>56</b>

# I. Introduction

Investor-owned electric utilities in the United States are buffeted today by varied and rapid changes in the business conditions they face. For vertically integrated electric utilities (“VIEUs”) and utility distribution companies (“UDCs”) alike, the traditional cost of service approach to rate regulation is often not ideal for helping utilities cope with these changes. Alternative approaches to regulation (“Altreg”) can often help utilities secure better outcomes for their customers and shareholders.

The changing business climate stems primarily from three root causes. One is pressure, from policymakers and many customers, for the power industry to lighten its environmental footprint. In addition to evolving renewable portfolio standards at the state level, utilities must comply with an array of federal initiatives such as the Environmental Protection Agency’s Clean Power Plan. Demand-side management (“DSM”) programs and tightening building codes and appliance standards encourage energy efficiency. Some customers seek power from greener sources than the increasingly clean portfolios of utilities. Self generation from rooftop solar is one means to this end, and its cost is falling. Customer-sited distributed generation (“DG”) must be accommodated, and utilities must purchase power surpluses that these facilities generate at regulated rates.

A second force for change is technological progress in metering and distribution. Advanced metering infrastructure and other smart grid technologies can improve reliability and facilitate integration of intermittent renewables. Time-sensitive pricing can encourage customers to use the grid in less costly ways. New value-added optional products and services can be offered which benefit customers.

A third force for change is increased concern about the reliability and resiliency of grid service. Some facilities are approaching advanced age, and some need more protection from severe weather. Many customers seek better quality service.

These forces are having important practical effects on utilities. Growth in the demand for their traditional services has slowed, and utilities face competition from distributed energy resources (“DERs”). Nevertheless, some utilities need capital expenditures (“capex”) for cleaner generating capacity, smart grid facilities, increased resiliency, and replacement of aging assets. Many new facilities don’t automatically trigger revenue growth. Increased marketing flexibility is needed to meet competitive challenges and complex, changing customer needs.

Under traditional regulation, the base rates that compensate utilities for costs of non-energy inputs are reset only in general rate cases with historical test years. These lengthy proceedings require a detailed review of all costs and their allocation amongst the utility’s retail services. Revenue from secondary sources (e.g., off-system sales) is imputed against the revenue requirement.

Most base rate revenue is drawn from volumetric and other usage charges. Since the cost of base rate inputs is driven more by capacity than system use in the short run, a utility’s finances are sensitive between rate



cases to the gap between growth in system use and capacity. A convenient proxy for this gap is the growth in use per customer (aka “average use”). The need for rate cases increases when average use declines.

Traditional regulation is ill-suited for addressing many of today’s challenges. Growth in average use was once positive, and the resulting incremental revenues helped utilities finance rising cost without rate cases. Today, growth in the average use of residential and commercial customers is typically static and often negative. Utilities needing normal or high capital expenditures are then compelled to file rate cases more frequently. These involve high regulatory cost and are nonetheless frequently uncompensatory when they involve historical test years. Frequent rate cases also reduce utility opportunities to increase earnings from improved cost containment and marketing. Traditional regulation also does not allow for many value-added or optional rates and services. Improved utility performance is thus discouraged at a time when it is increasingly needed to respond to competitive pressures.

Increased financial attrition has been a factor in the long-term decline of average credit ratings among investor-owned electric utilities. This is illustrated in Figure 1. Higher risk raises financing costs and can discourage needed investments.

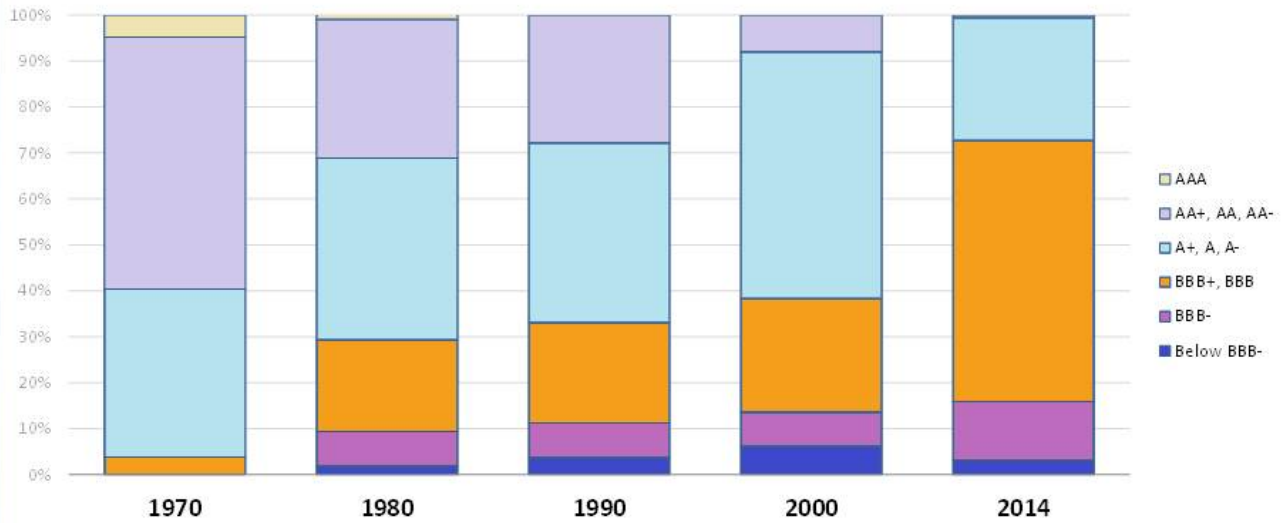
Alternative approaches to regulation have been developed which handle today’s business conditions better. Some, such as multiyear rate plans, formula rates, and fully-forecasted test years, can involve sweeping regulatory change. Others, like revenue decoupling and cost trackers, target specific challenges.

This survey, now updated to include precedents through mid-2015, explains Altreg options and details precedents in the regulation of retail electric utility rates. A summary of states that currently use these approaches is featured in Table 1. Information is also provided on precedents for gas and water distributors and for energy utilities in Australia, Canada, and Britain. This year’s survey also discusses marketing flexibility, a new Altreg area of growing interest to EEI members.

Figure 1

# U.S. Electric IOUs Rating History

1970 – 2014



The current average company rating is BBB+, improved from the BBB average rating in 2000



Table 1

**Alternative Regulation Tools: An Overview of Current Precedents**

State	Capital Cost Trackers	Measures that Relax the Use/Revenue Link			Multiyear Rate Plans <sup>1</sup>	Retail Formula Rate Plans	Forward Test Years
		Decoupling True Up Plans	Lost Revenue Adjustment Mechanisms	Fixed Variable Retail Pricing			
Alabama	Electric & Gas					Electric & Gas	Yes
Alaska							
Arizona	Electric, Gas, & Water	Gas only	Electric & Gas		Electric only		
Arkansas	Electric & Gas	Gas only	Electric & Gas				
California	Electric & Gas	Electric & Gas			Electric & Gas		Yes
Colorado	Electric & Gas				Electric only		
Connecticut	Electric, Gas, & Water	Electric & Gas	Gas only	Electric & Gas			Yes
Delaware	Electric, Gas, & Water						
District of Columbia	Electric & Gas	Electric only					
Florida	Electric & Gas			Gas only	Electric only		Yes
Georgia	Electric & Gas	Gas only		Gas only	Electric only	Gas only	Yes
Hawaii	Electric only	Electric only			Electric only		Yes
Idaho	Electric only	Electric only					
Illinois	Gas & Water	Gas only		Electric & Gas		Electric only	Yes
Indiana	Electric, Gas, & Water	Gas only	Electric only		Gas only		
Iowa	Gas only			Gas only	Electric only		
Kansas	Gas only		Electric only	Gas only			
Kentucky	Electric & Gas		Electric & Gas	Gas only			Yes
Louisiana	Electric only		Electric only		Electric only	Electric & Gas	Yes
Maine	Electric, Gas, & Water	Electric only		Gas only	Gas only		Yes
Maryland	Electric & Gas	Electric & Gas					
Massachusetts	Electric & Gas	Electric & Gas	Electric & Gas		Gas only		
Michigan	Gas only	Gas only					Yes

Table 1 continued

State	Capital Cost Trackers	Measures that Relax the Use/Revenue Link			Multiyear Rate Plans <sup>1</sup>	Retail Formula Rate Plans	Forward Test Years
		Decoupling True Up Plans	Lost Revenue Adjustment Mechanisms	Fixed Variable Retail Pricing			
Minnesota	Electric & Gas	Electric & Gas					Yes
Mississippi	Electric & Gas		Electric & Gas	Electric only		Electric & Gas	Yes
Missouri	Gas & Water			Gas only			
Montana	Electric & Gas		Gas only				
Nebraska	Gas only			Gas only			
Nevada	Gas only	Gas only	Electric only				
New Hampshire	Electric, Gas, & Water			Gas only	Electric & Gas		
New Jersey	Electric, Gas, & Water	Gas only					
New Mexico							Yes
New York	Gas & Water	Electric & Gas	Gas only	Electric & Gas	Electric & Gas		Yes
North Carolina	Gas & Water	Gas only	Electric only				
North Dakota	Electric only			Gas only	Electric only		Yes
Ohio	Electric, Gas, & Water	Electric only	Electric only	Gas only	Electric only		
Oklahoma	Electric only		Electric only	Electric & Gas		Gas only	
Oregon	Electric & Gas	Electric & Gas	Electric & Gas				Yes
Pennsylvania	Electric, Gas, & Water			Gas only			Yes
Rhode Island	Electric & Gas	Electric & Gas					Yes
South Carolina	Electric only		Electric only			Gas only	
South Dakota	Electric only						
Tennessee	Gas only	Gas only		Gas only		Gas only	Yes
Texas	Electric & Gas			Gas only		Gas only	
Utah	Gas only	Gas only					Yes
Vermont				Gas only			
Virginia	Electric & Gas	Gas only		Gas only	Electric only		
Washington	Gas only	Electric & Gas			Electric & Gas		
West Virginia	Electric only						
Wisconsin				Gas only			Yes
Wyoming	Electric only	Gas only	Electric & Gas	Electric & Gas			Yes

<sup>1</sup> This column excludes plans involving rate freezes without extensive supplemental funding from trackers.

## II. Cost Trackers

A cost tracker is a mechanism for expedited recovery of specific utility cost (e.g., outside of a rate case). Balancing accounts are typically used to track unrecovered costs. Cost recovery is often implemented using tariff sheet provisions called riders.

Trackers are used in various situations where they are more practical than rate cases for addressing particular costs. Utilities usually recover fuel and purchased power costs via trackers because the volatility and substantial size of these costs would otherwise lead to frequent rate cases and materially impact utility risk. Other volatile expenses that are sometimes addressed with trackers include those for pensions, severe storms, and uncollectible bills.

A second use of trackers is for costs incurred due to policies of government agencies. Examples here include franchise fees and certain taxes. Tracking costs like these is fair to utilities and encourages government agencies to consider the impact of their policies on customer bills.

Trackers are also used to compensate utilities for costs that are rapidly rising and don't otherwise trigger new revenue, whether or not they are volatile or mandated. This encourages needed expenditures and reduces risk and the frequency of rate cases. Examples of operation and maintenance ("O&M") expenses that are sometimes tracked due in large measure to their rapid growth include those for health care.

Trackers for some costs have multiple rationales. DSM expenses, for example, are often sizable and sometimes grow rapidly.<sup>1</sup> Utility DSM programs are often mandated. Additionally, DSM can slow growth in the average use of power and reduce the need for plant additions, important sources of earnings growth for utilities. Tracking DSM expenses helps to balance utility incentives to embrace DSM.

Capital cost trackers typically address the accumulating depreciation, return on asset value, and taxes that result from the capex.<sup>2</sup> Capital costs can qualify for tracker treatment on several grounds. Major plant additions are volatile. Capex might be necessitated by highway construction or changes in government safety, reliability, or environmental standards. Capex is sometimes large enough to cause brisk cost growth that would otherwise occasion frequent rate cases.

An early use of capital cost trackers in the electric utility industry was to address construction costs of large power plants. These plants can take years to construct. An allowance in rates for a return on funds used during construction was traditionally not permitted until assets were used and useful and a rate case was filed. Deferred recovery of the allowance strains utility cash flow, increases financing expenses, and induces more rate "shock" when the value of the plant and construction financing is finally added to the rate base.

<sup>1</sup> This survey only documents capital cost trackers. Trackers for DSM expenses are ubiquitous so that there is less need for documentation.

<sup>2</sup> Recovery is sometimes achieved by keeping a rate case open beyond the date of a final decision for the limited purpose of adding assets to the revenue requirement.

Many commissions have addressed these problems by making a return on construction work in progress (“CWIP”) eligible for immediate recovery. Capital cost trackers have often been used in lieu of frequent rate cases to obtain CWIP recovery.

Capital costs of distribution system modernization are sometimes recovered using trackers for somewhat different reasons. The annual expenditure may not be as large as that for large generation units, and construction of specific assets usually takes less than a year. However, the capex can still be sizable and doesn’t automatically trigger new revenue when completed. A tracker for accelerated modernization costs can help a company modernize its grid and improve its services without frequent rate cases.

Capital costs of generation emissions controls are often accorded tracker treatment. These controls are occasioned by the emissions policies of state and federal agencies. Additionally, the facilities do not produce revenue and some facilities typically become used and useful each year over a series of years.

There are varied treatments of costs in approved capital trackers. Regulators often approve tracked capex budgets in advance, usually after considerable deliberation. Procedures for reviewing the need for generation plant additions are especially well established. Once a budget is set, the treatment of variances between actual and budgeted cost becomes an issue. Some trackers permit conventional prudence review treatment of cost overruns. In other cases, no adjustments are subsequently made if cost exceeds the budget. In between these extremes are mechanisms in which deviations, of prescribed magnitude, from budgeted amounts are shared formulaically (e.g., 50-50) between the utility and its customers. Utilities are also permitted sometimes to share in the benefits of capex underspends. The prudence of tracked capex is often subject to a final review when the cost is added to rate base, a step that usually occurs in the next rate case.

Recent precedents for capital cost trackers are listed in Table 2 and Figures 2 and 3. It can be seen that the precedents are numerous and continue to grow. This is the most widely used Altreg tool in the United States. For electric utilities, trackers for emissions controls, generation capacity, advanced metering infrastructure, and general system modernization have been especially common in recent years. Trackers for gas distributors typically address the cost of replacing old cast iron and bare steel mains. Trackers for water utilities, sometimes called distribution system improvement charges, are also common for accelerated modernization.

Figure 2: Recent Capital Cost Tracker Precedents by State: Energy Utilities

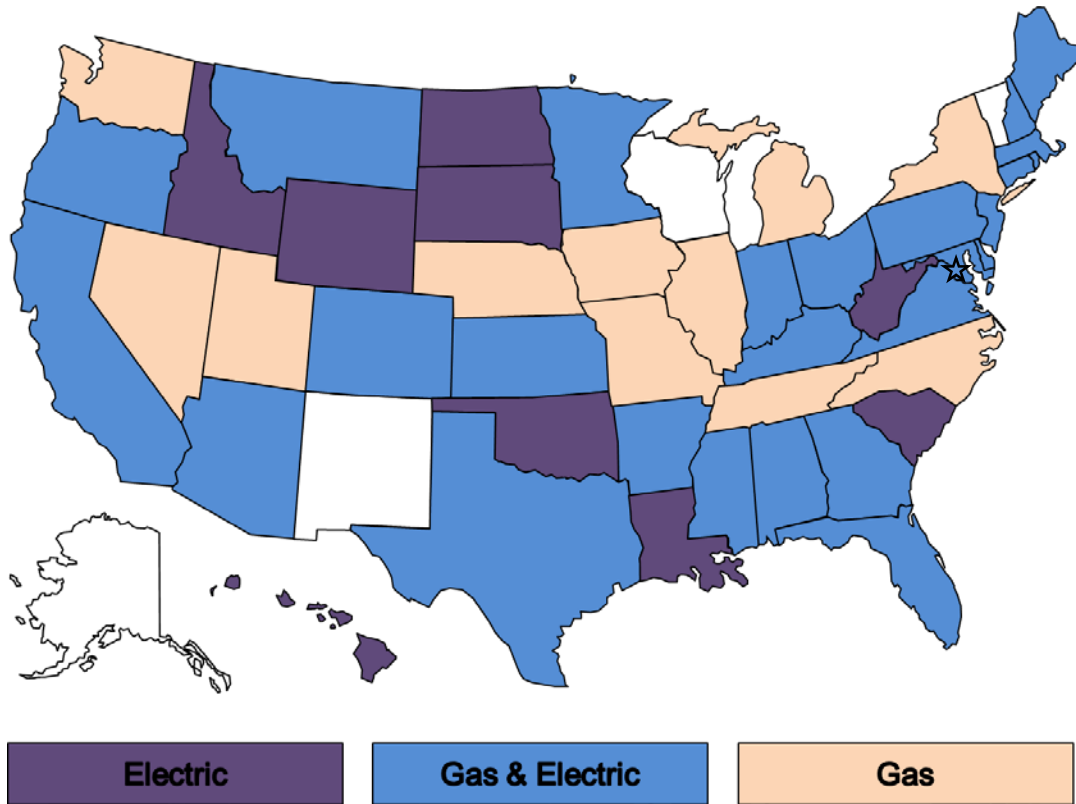


Figure 3: Recent Capital Cost Tracker Precedents by State: Water Utilities

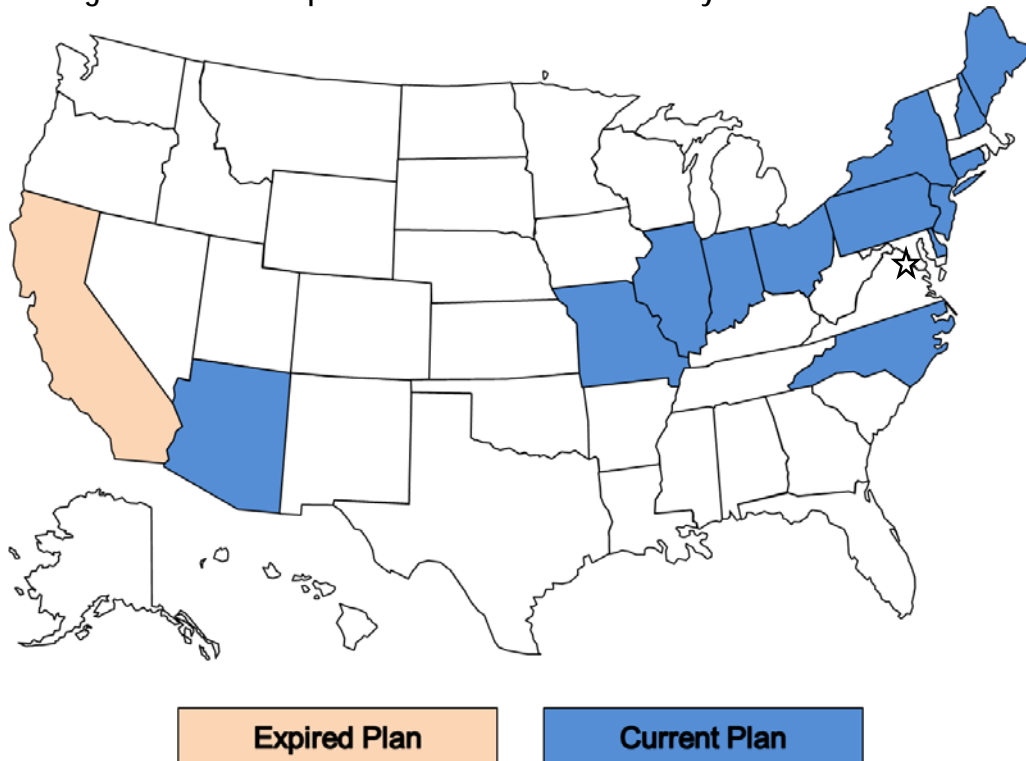


Table 2

# Recent Capital Cost Tracker Precedents

Jurisdiction	Company Name	Services Included	Tracker Name	Eligible Investments	Case Reference
AL	Alabama Power	Electric	Rate Certificated New Plant	Any approved by Commission through CPCN	Dockets 18117 and 18416 (November 1982)
AL	Mobile Gas Service	Gas	Cast Iron Replacement Factor	Replacement of cast iron mains	Docket 24794 (November 1995)
AR	Arkansas Oklahoma Gas	Gas	Act 310 Surcharge	Relocations of pipelines mandated by government agencies	Docket 12-088-U (July 2013)
AR	Arkansas Oklahoma Gas	Gas	System Safety Enhancement Rider	Replacement of bare steel mains, mains on low pressure systems, mains that are subject of an advisory notice by government that company deems to be unsatisfactory	Docket 13-078-U (July 2014)
AR	CenterPoint Energy Arkla	Gas	Main Replacement Rider	Replacement of cast iron and bare steel mains and services	Docket 06-161-U (October 2007)
AR	CenterPoint Energy Arkla	Gas	Government Mandated Expenditure Surcharge Rider	Replacements resulting from highway and street rebuilding	Docket 10-108-U (March 2011)
AR	Empire District Electric	Electric	Alternative Generation Environmental Recovery Rider	Environmental	Docket 15-010-U (August 2015)
AR	Oklahoma Gas & Electric	Electric	Smart Grid Rider	Systemwide smart grid implementation	Docket 10-109-U (August 2011)
AR	SourceGas Arkansas	Gas	At-Risk Meter Relocation Program Rider	Installation of new services for meters relocated due to motor vehicle collision risk	Docket 13-079-U (July 2014)
AR	SourceGas Arkansas	Gas	Main Replacement Program Rider	Replacement of bare steel and coated steel mains, mains that are subject of an advisory notice by government that company deems to be unsatisfactory, and associated services	Docket 13-079-U (July 2014)
AR	SourceGas Arkansas	Gas	Act 310 Surcharge	Bare steel and cast iron pipeline replacement, in-line inspection project, emissions controlling catalysts for compressor station engines, greenhouse gas monitoring of some regulator stations, highway relocation projects	Docket 13-072-U (April 2014)
AR	SWEPSCO	Electric	Alternative Generation Recovery Rider	New generation	Docket 09-008-U (November 2009)
AR	SWEPSCO	Electric	Rider Environmental Compliance Surcharge	Environmental	Docket 15-021-U (October 2015)
AZ	Arizona Public Service	Electric	Renewable Energy Standard Adjustment Schedule	Renewables not recovered in base rates	Docket E-01345A-08-0172
AZ	Arizona Public Service	Electric	Environmental Improvement Surcharge	Environmental improvement projects	Docket E-01345A-11-0224 (May 2012)
AZ	Arizona Public Service	Electric	Four Corners Rate Rider Surcharge	Generation	Docket E-01345A-11-0224 (December 2014)
AZ	Arizona Water Company	Water	Arsenic Cost Recovery Mechanism	Investments to reduce arsenic in water supply	Various (operating regions have separate decisions approving ACRMs)
AZ	Arizona Water Company - Eastern Group	Water	System Improvement Benefits Mechanism	Replacement of leak prone mains and related services, meters, and hydrants, replace meters that do not have lead free brass, other replacements for mains, services, meters, and hydrants that are at the end of their useful life	Decision 73938 (June 2013)
AZ	Southwest Gas	Gas	Customer Owned Yard Line Cost Recovery Mechanism	Replacement and ownership of customer-owned yard lines that have been shown to be leaking	Docket G-01551A-10-0458 (January 2012)
AZ	Tucson Electric Power	Electric	Environmental Compliance Adjustor	Miscellaneous environmental projects	Decision 73912 (June 2013)
CA	Pacific Gas & Electric	Electric	Smart Grid Memorandum Account	Smart grid projects that received DOE matching funds	Decision 09-09-029 (September 2009)
CA	Pacific Gas & Electric	Gas Transmission	Pipeline Safety Implementation Plan	Pipeline replacement, automated valve installation, and upgrades to pipeline	Decision 12-12-030 (December 2012)
CA	Pacific Gas & Electric	Electric	Smart Grid Pilot Deployment Project Balancing Account	Pilot programs for smart grid line sensors, volt/VAR optimization, detection and location of distribution line outages and faulted circuits, and information technology investments to improve short term demand forecasting for power procurement	Decision 13-03-032 (March 2013)
CA	San Diego Gas & Electric	Electric & Gas	Advanced Metering Infrastructure Balancing Account	AMI	Decision 07-04-043 (April 2007)
CA	San Diego Gas & Electric	Electric	Energy Storage Balancing Account	Projects to store solar energy	Decision 13-05-010 (May 2013)
CA	San Diego Gas & Electric	Gas	Post-2011 Distribution Integrity Management Program Balancing Account	DIMP related costs	Decision 13-05-010 (May 2013)
CA	San Diego Gas & Electric	Gas	Transmission Integrity Management Program Balancing Account	TIMP related costs	Decision 13-05-010 (May 2013)
CA	San Diego Gas & Electric	Gas Transmission	Safety Enhancement Capital Cost Balancing Account	Replacement of mains that fail pressure tests or that cannot be pressure tested	Decision 14-06-007 (June 2014)
CA	Southern California Edison	Electric	SmartConnect Balancing Account	Advanced metering infrastructure project	Decision 08-09-039 (September 2008)
CA	Southern California Edison	Electric	Solar PV Balancing Account	Solar generation	Decision 09-06-049 (June 2009)
CA	Southern California Gas	Gas	Advanced Metering Infrastructure Balancing Account	AMI	Decision 10-04-027 (April 2010)
CA	Southern California Gas	Gas	Post-2011 Distribution Integrity Management Program Balancing Account	DIMP related costs	Decision 13-05-010 (May 2013)
CA	Southern California Gas	Gas	Transmission Integrity Management Program Balancing Account	TIMP related costs	Decision 13-05-010 (May 2013)
CA	Southern California Gas	Gas Transmission	Safety Enhancement Capital Cost Balancing Account	Replacement of mains that fail pressure tests or that cannot be pressure tested	Decision 14-06-007 (June 2014)
CO	Black Hills Colorado Electric	Electric	Transmission Cost Adjustment Rider	Transmission projects	Docket 09-014E, Decision C09-0271 (March 2009)
CO	Black Hills Colorado Electric	Electric	Clean Air Clean Jobs Act Rider	Gas-fired generation	Docket 14AL-0393E, Decision C14-1504 (December 2014)
CO	Public Service Company of Colorado	Electric	Transmission Cost Adjustment	Transmission projects	Docket 07A-339E, Decision C07-1085 (December 2007)
CO	Public Service Company of Colorado	Gas	Pipeline Safety Integrity Adjustment	Gas distribution and transmission integrity management programs, main replacement, partial recovery of two large pipeline replacements	Docket 10-AL-963G (August 2011)



Table 2 continued

Jurisdiction	Company Name	Services Included	Tracker Name	Eligible Investments	Case Reference
CO	Public Service Company of Colorado	Electric	Clean Air Clean Jobs Act Rider	Miscellaneous environmental projects including gas-fired generation, scrubbers	Proceeding 14A-680E, Decision C15-0292 (March 2015)
CO	Rocky Mountain Gas	Gas Transmission	System Safety and Integrity Rider	TIMP, DIMP, and other safety regulatory compliance projects	Docket 13AL-0046G, Decision R14-0114 (February 2014)
CT	Aquarion Water Company of Connecticut	Water	Water Infrastructure and Conservation Adjustment	Replacement of infrastructure including mains, valves, services, meters, and hydrants that have reached the end of their useful life or are no longer able to function as intended	Docket 08-06-21W101 (December 2008)
CT	Connecticut Light & Power	Electric	System Resiliency Plan	Structural hardening	Docket 12-07-06 (January 2013)
CT	Connecticut Natural Gas	Gas	System Expansion Reconciliation Mechanism	System expansion	Docket 13-06-02 (November 2013)
CT	Connecticut Natural Gas	Gas	DIMP True-Up Mechanism	Cast iron and bare steel main replacement	Docket 13-06-08; (January 2014)
CT	Connecticut Water	Water	Water Infrastructure and Conservation Adjustment	Replacement of infrastructure including mains, valves, services, meters, and hydrants that have reached the end of their useful life or are no longer able to function as intended	Docket 08-10-15W101 (March 2009)
CT	Southern Connecticut Gas	Gas	System Expansion Reconciliation Mechanism	System expansion	Docket 13-06-02 (November 2013)
CT	Torrington Water	Water	Water Infrastructure and Conservation Adjustment	Replacement of infrastructure including mains, valves, services, meters, and hydrants that have reached the end of their useful life or are no longer able to function as intended	Docket 09-06-17W101 (December 2009)
CT	United Water Connecticut	Water	Water Infrastructure and Conservation Adjustment	Replacement of infrastructure including mains, valves, services, meters, and hydrants that have reached the end of their useful life or are no longer able to function as intended	Docket 09-06-17W101 (December 2009)
CT	Yankee Gas Services	Gas	System Expansion Reconciliation Mechanism	System expansion	Docket 13-06-02 (November 2013)
DC	Potomac Electric Power	Electric	Underground Project Charge	Undergrounding of specific feeders	Formal Case 1116 (November 2014)
DC	Washington Gas Light	Gas	Plant Recovery Adjustment	Remediation/replacement of mechanical couplings	Formal Case 1027 (December 2009)
DC	Washington Gas Light	Gas	Accelerated Pipe Replacement Plan Adjustment	Replacement of cast iron mains, bare steel mains and services and "black plastic" services	Formal Case 1115 (January 2015)
DE	Artesian Water	Water	Distribution System Improvement Charge	Replacement of infrastructure (e.g., existing mains, services, meters, and hydrants)	Docket 01-474 (December 2001)
DE	Delmarva Power & Light	Gas	Utility Facility Relocation Charge	Replacements due to mandated relocations that are not otherwise reimbursed	Docket 12-546 (October 2013)
DE	Delmarva Power & Light	Electric	Utility Facility Relocation Charge	Replacements due to mandated relocations that are not otherwise reimbursed	Docket 13-115 (August 2014)
DE	Sussex Shores Water	Water	Distribution System Improvement Charge	Replacement of infrastructure (e.g., existing mains, services, meters, and hydrants)	Docket 01-470 (December 2001)
DE	Tidewater Utilities	Water	Distribution System Improvement Charge	Replacement of infrastructure (e.g., existing mains, services, meters, and hydrants)	Docket 03-210 (May 2003)
DE	United Water Delaware	Water	Distribution System Improvement Charge	Replacement of infrastructure (e.g., existing mains, services, meters, and hydrants)	Docket 01-481 (December 2001)
FL	Chesapeake Utilities	Gas	Gas Reliability Infrastructure Program Tariff	Replacement of bare steel mains and services	Docket 120036-GU (September 2012)
FL	Florida City Gas	Gas	Safety and Access Verification Expedited Program	Replacement of unprotected steel mains, relocation of certain gas mains in rear lot easements	Docket 150116-GU (September 2015)
FL	Florida Power and Light	Electric	Environmental Cost Recovery Clause	Miscellaneous environmental projects	Docket 080281-EI (August 2008)
FL	Florida Power and Light	Electric	Capacity Cost Recovery Clause	Nuclear power	Docket 090009-EI (November 2009)
FL	Florida Power and Light	Electric	Generation Base Rate Adjustment	Generation	Docket 120015-EI (December 2012)
FL	Florida Public Utilities	Gas	Gas Reliability Infrastructure Program Tariff	Replacement of bare steel mains and services	Docket 120036-GU (September 2012)
FL	Gulf Power	Electric	Environmental Cost Recovery Clause	Miscellaneous environmental projects	Docket 930613-EI (January 1994)
FL	Peoples Gas System	Gas	Cast Iron/Bare Steel Replacement Rider	Replacement of bare steel and cast iron pipes	Docket 110320-GU (September 2012)
FL	Progress Energy Florida	Electric	Environmental Cost Recovery Clause	Miscellaneous environmental projects	Docket 050078-EI (September 2005)
FL	Progress Energy Florida	Electric	Capacity Cost Recovery Clause	Nuclear power	Docket 090009-EI (November 2009)
FL	Progress Energy Florida	Electric	Generation Base Rate Adjustment	Generation	Docket 130208 (November 2013)
FL	Tampa Electric	Electric	Environmental Cost Recovery Clause	Miscellaneous environmental projects	Docket 960688-EI (August 1996)
GA	Atlanta Gas Light	Gas	Pipeline Replacement Program Cost Recovery Rider	Replacement of cast iron and bare steel pipe	Docket 29950 as STRIDE tracker in 2009
GA	Atlanta Gas Light	Gas	Strategic Infrastructure Development and Enhancement Surcharge	Pre-1985 plastic mains and services replacement, planned customer expansions, and infrastructure improvements that sustain reliability and operational flexibility	Docket 8516-U and 29950 (October 2009 and August 2013)
GA	Atmos Energy (now Liberty Utilities)	Gas	Pipe Replacement Surcharge	Replace cast iron and bare steel pipe	Docket 12509-U (December 2000)
GA	Georgia Power Company	Electric	Environmental Compliance Cost Recovery	Miscellaneous environmental projects	Docket 25060-U (December 2007)
GA	Georgia Power Company	Electric	Nuclear Construction Cost Recovery	Nuclear generation	Docket 27800, Senate Bill 31
HI	Hawaii Electric Light	Electric	Renewable Energy Infrastructure Program Surcharge	Renewable energy infrastructure	Docket 2007-0416 (December 2009)
HI	Hawaiian Electric Company	Electric	Renewable Energy Infrastructure Program Surcharge	Renewable energy infrastructure	Docket 2007-0416 (December 2009)
HI	Maui Electric	Electric	Renewable Energy Infrastructure Program Surcharge	Renewable energy infrastructure	Docket 2007-0416 (December 2009)
IA	Black Hills Energy	Gas	System Safety Maintenance Adjustment	Replacement of steel and pvc pipe, relocations mandated by local governments	Docket RPU-2012-0004 (March 2013)
ID	PacifiCorp	Electric	Energy Cost Adjustment Mechanism	Lake Side II generation facility	Case PAC-E-13-04 (October 2013)

Table 2 continued

Jurisdiction	Company Name	Services Included	Tracker Name	Eligible Investments	Case Reference
IL	Ameren Illinois	Gas	Rider Qualifying Infrastructure Plant	Replacement of prone to leak distribution and transmission pipe, installation of AMI and communications infrastructure, replacing or installing transmission or distribution facilities to establish over-pressure protection, replacement of difficult to locate mains and services, replacement of high pressure transmission pipelines without a recorded maximum allowable operating pressure, replacements to facilitate an upgrade from a low pressure system to a high pressure system	Docket 14-0573 (January 2015)
IL	Consumers Illinois Water Company (Kankakee, Vermilion, Woodhaven Districts)	Water	Qualifying Infrastructure Plant Surcharge Rider	Replacement of non-revenue producing infrastructure (e.g., existing mains, services, meters, and hydrants)	Docket 01-0561 (December 2001)
IL	Illinois-American Water (Chicago Metro Division)	Water	Qualifying Infrastructure Plant Surcharge Rider	Replacement of non-revenue producing infrastructure (e.g., existing mains, services, meters, and hydrants)	Docket 09-0251 (March 2010)
IL	Illinois-American Water (Single Tariff Pricing Zone)	Water	Qualifying Infrastructure Plant Surcharge Rider	Replacement of non-revenue producing infrastructure (e.g., existing mains, services, meters, and hydrants)	Docket 04-0336 (December 2004)
IL	Northern Illinois Gas	Gas	Rider Qualifying Infrastructure Plant	Replacement of cast iron pipe, non-cast iron pipe, and copper services; relocation of meters from inside customers' premises; upgrading of system from low pressure to medium pressure; replacement or installation of regulator stations, regulators, valves and associated facilities to establish over-pressure protection	Docket 14-0292 (July 2014)
IL	Peoples Gas Light & Coke	Gas	Rider Qualifying Infrastructure Plant	Replacement of cast and ductile iron, relocation of meters from inside customers' premises, upgrading of system from low pressure to medium pressure, replacement of high pressure transmission pipelines at higher risk of failure or lacking records, installation of regulator stations to establish over-pressure protection	Docket 13-0534 (January 2014)
IN	Duke Energy Indiana	Electric	Qualified Pollution Control Property	Miscellaneous environmental projects	Cause 41744 (February 2001)
IN	Duke Energy Indiana	Electric	Integrated Coal Gasification Combined Cycle Generating Facility Revenue Recovery Adjustment	Integrated gasification combined cycle generating plant	Docket 43114 (November 2007)
IN	Indiana Michigan Power	Electric	Clean Coal Technology Rider	Miscellaneous environmental projects	Cause 43636 (June 2009)
IN	Indiana Water Service	Water	Distribution System Improvement Charge	Replacement of non-revenue producing infrastructure (e.g., existing mains, services, meters, and hydrants)	Cause 42743 DSIC-1 (December 2004)
IN	Indiana-American Water	Water	Distribution System Improvement Charge	Replacement of non-revenue producing infrastructure (e.g., existing mains, services, meters, and hydrants)	Cause 42351 DSIC-1 (February 2003)
IN	Indianapolis Power & Light	Electric	Environmental Compliance Cost Recovery	Miscellaneous environmental projects	Cause 42170 (November 2002)
IN	Northern Indiana Public Service	Electric	Environmental Cost Recovery Mechanism	Miscellaneous environmental projects	Cause 42150 (November 2002)
IN	Northern Indiana Public Service	Electric	Transmission, Distribution & Storage System Improvement Charge	Investments to maintain the capacity deliverability of system and replacement of aging infrastructure, economic development	Cause 44370 and 44371 (February 2014)
IN	Northern Indiana Public Service	Gas	Distribution System Improvement Charge	Gas system deliverability and system integrity projects, rural main extensions	Cause 44403 TDSIC 1 (January 2015)
IN	Utility Center Inc.	Water	Distribution System Improvement Charge	Replacement of non-revenue producing infrastructure (e.g., existing mains, services, meters, and hydrants)	Docket 42416 DSIC-1 (June 2003)
IN	Vectren Energy Delivery (Indiana Gas and Southern Indiana Gas & Electric)	Gas	Compliance and System Improvement Adjustment	System and pressure improvements, storage operations, instrumentation and communications equipment, public improvement projects, service replacements, and economic development	Cause 44429 (August 2014)
KS	Atmos Energy	Gas	Gas System Reliability Surcharge	Replacement of mains, valves, service lines, regulator stations, vaults, other pipeline components or relocations	Docket 10-ATMG-133-TAR (December 2009)
KS	Black Hills Energy (Aquila)	Gas	Gas System Reliability Surcharge	Replacement of mains, valves, service lines, regulator stations, vaults, other pipeline components or relocations	Docket 08-AQLG-852-TAR (July 2008)
KS	Kansas Gas Service	Gas	Gas System Reliability Surcharge	Replacement of mains, valves, service lines, regulator stations, vaults, other pipeline components or relocations	Docket 10-KGSG-155-TAR (December 2009)
KS	Midwest Energy	Gas	Gas System Reliability Surcharge	Replacement of mains, valves, service lines, regulator stations, vaults, other pipeline components or relocations	Docket 09-MDWE-722-TAR (May 2009)
KY	Atmos Energy	Gas	Pipe Replacement Program Rider	Replacement of bare steel service lines, curb valves, meter loops, and mandated relocations	Docket 2009-00354 (May 2010)
KY	Columbia Gas	Gas	Advanced Main Replacement Rider	Replacement of cast iron and bare steel mains and services	Docket 2009-00141 (September 2009)
KY	Delta Natural Gas	Gas	Pipe Replacement Program Surcharge	Replacement of bare steel pipe, service lines, curb valves, meter loops, and mandated pipe relocations	Case 2010-00116 (October 2010)
KY	Kentucky Power	Electric	Environmental Cost Recovery Surcharge	Miscellaneous environmental projects	Docket 2002-00169 (March 2003)
KY	Kentucky Utilities	Electric	Environmental Cost Recovery Surcharge	Miscellaneous environmental projects	Case 93-465 (July 1994)
KY	Louisville Gas & Electric	Electric	Environmental Cost Recovery Surcharge	Miscellaneous environmental projects	Case 94-332 (April 1995)
KY	Louisville Gas & Electric	Gas	Gas Line Tracker	Replacement and transfer of ownership of customer owned service risers	Case 2012-00222 (December 2012)
LA	Cleco Power	Electric	Infrastructure and Incremental Costs Recovery	Projects to be determined in subsequent filings to Commission	Docket U-30689 and U-32779 (October 2010 and June 2014)
LA	Entergy Gulf States Louisiana	Electric	Formula Rate Plan-3	Acquisition of generating facility, new generating facility or refurbishment of existing generating facility if the revenue requirement related to the project exceeds \$10 million	Docket U-32707 (December 2013)
LA	Entergy Louisiana	Electric	Formula Rate Plan 7	Cost of Ninemile 6 natural gas generating facility; New generating facility, acquisition of a generating facility, or refurbishment of existing generating facility if the revenue requirement related to the project exceeds \$10 million	Docket U-32708 and 31971 (January 2014 and April 2012)
MA	Bay State Gas	Gas	Targeted Infrastructure Recovery Factor	Replacement of bare steel mains and services	DPU 09-30
MA	Bay State Gas	Gas	Gas System Enhancement Adjustment Factor	Replacement of non-cathodically protected steel, cast iron, and wrought iron mains and associated services, service tie-ins, encroached pipe, and meters	DPU 14-134
MA	Berkshire Gas	Gas	Gas System Enhancement Adjustment Factor	Replacement of non-cathodically protected steel, cast iron mains and associated services, encroached pipe, and meter sets composed of non-cathodically protected steel, cast iron or copper	DPU 14-131
MA	Fitchburg Gas & Electric Light	Gas	Gas System Enhancement Adjustment Factor	Replacement of cast main and unprotected steel mains and services and encroached pipe	DPU 14-130

**Table 2 continued**

<b>Jurisdiction</b>	<b>Company Name</b>	<b>Services Included</b>	<b>Tracker Name</b>	<b>Eligible Investments</b>	<b>Case Reference</b>
MA	Massachusetts Electric	Electric	Net CapEx Factor	Potentially all distribution investments	DPU 09-39
MA	Massachusetts Electric	Electric	Solar Cost Adjustment Provision	Solar generation	DPU 09-38
MA	Massachusetts Electric	Electric	Smart Grid Adjustment Provision	Pilot smart grid investments including AMI, high speed communications network, in-home energy management devices, distribution automation, advanced capacitor control, advanced grid monitoring, remote fault indicators	DPU 11-129
MA	Nantucket Electric	Electric	Solar Cost Adjustment Provision	Solar generation	DPU 09-38
MA	Nantucket Electric	Electric	Smart Grid Adjustment Provision	Pilot smart grid investments including AMI, high speed communications network, in-home energy management devices, distribution automation, advanced capacitor control, advanced grid monitoring, remote fault indicators	DPU 11-129
MA	National Grid (Boston-Essex Gas and Colonial Gas	Gas	Targeted Infrastructure Recovery Factor	Replacement of bare steel, cast iron, and wrought iron mains, services, meters, meter installations, and house regulators	DPU 10-55
MA	National Grid (Boston-Essex Gas and Colonial Gas	Gas	Gas System Enhancement Adjustment Factor	Replacement of non-cathodically protected steel, cast iron, and wrought iron mains and associated services, inside services, service tie-ins, encroached pipe, and meters	DPU 14-132
MA	New England Gas	Gas	Targeted Infrastructure Recovery Factor	Replacement of non-cathodically protected steel mains and services and small diameter cast-iron and wrought iron	DPU 10-114
MA	New England Gas	Gas	Gas System Enhancement Adjustment Factor	Replacement of non-cathodically protected steel, cast iron, and wrought iron mains and associated services, inside services, service tie-ins, encroached pipe, and meters	DPU 14-133
MA	NSTAR Electric	Electric	Capital Projects Scheduling List	Stray voltage inspection survey and remediation program; double pole inspections, replacements, and restorations; and manhole inspection, repair, and upgrade	DTE 05-85 and DPU 10-70-B
MA	NSTAR Electric	Electric	Smart Grid Adjustment Factor	Smart grid pilot	DPU-09-33
MA	Western Massachusetts Electric	Electric	Solar Program Cost Adjustment	Solar generation	DPU 09-05
MD	Baltimore Gas & Electric	Electric	Electric Reliability Investment Surcharge	Upgrades to improve poorest performing feeders, selective undergrounding, expanded recloser development on 13kV and 34 kV lines, diverse routing of 34 kV supply circuits	Case 9326 (December 2013)
MD	Baltimore Gas & Electric	Gas	Strategic Infrastructure Development and Enhancement Program	Replacement of bare steel mains and services, cast iron mains, copper services, and pre-1982 plastic "Ski Bar" risers	Case 9331 (January 2014)
MD	Columbia Gas of Maryland	Gas	Strategic Infrastructure Development and Enhancement Program	Replacement of bare steel and cast iron mains and bare steel services	Case 9332 (August 2014)
MD	Delmarva Power & Light	Electric	Grid Resiliency Charge	Feeder hardening	Case 9317 (September 2013)
MD	Potomac Electric Power	Electric	Grid Resiliency Charge	Feeder hardening	Case 9311 (July 2013)
MD	Washington Gas Light	Gas	Strategic Infrastructure Development and Enhancement Program Rider	Replacement of bare and unprotected steel mains and services, targeted copper and pre-1975 plastic services, mechanically coupled pipe main and services, and cast iron mains	Case 9335 (May 2014)
ME	Central Maine Power	Electric	Customer Relationship Management & Billing Rate Adjustment	Customer relationship management & billing system replacement	Docket 2015-00040 (October 2015)
ME	Maine Water Company	Water	Water Infrastructure Charge	Replacement of stationary physical plant assets needed to operate a water system	Various orders separately issued for operating divisions
ME	Northern Utilities	Gas	Targeted Infrastructure Recovery Adjustment	Cast iron, bare steel, and unprotected coated steel mains and services replacements, replacement of farm tap regulators	Docket 2013-00133 (December 2013)
MI	Consumers Energy	Gas	Enhanced Infrastructure Replacement Program	Cast iron replacements	Case U-17643 (January 2015)
MI	Michigan Consolidated Gas (now DTE Gas)	Gas	Infrastructure Recovery Mechanism	Replacement of cast iron mains, replacement of indoor meters with outdoor meters, pipeline integrity projects designed to comply with federal and state safety standards	Case U-16999 (April 2013)
MI	SEMCO Gas	Gas	Main Replacement Rider	Replacement of cast iron and unprotected steel mains and service lines	Case U-16169 and U-17824 (January 2011 and June 2015)
MN	Interstate Power & Light	Electric	Renewable Energy Recovery Adjustment	Renewable generation	Docket M-10-312 (December 2013)
MN	Minnesota Power	Electric	Arrowhead Regional Emission Abatement Rider	Miscellaneous environmental projects	Docket M-05-1678 (June 2006)
MN	Minnesota Power	Electric	Transmission Cost Recovery Rider	Incremental transmission investment	Docket M-07-965 (December 2007)
MN	Minnesota Power	Electric	Renewable Resource Rider	Renewable generation	Docket M-10-273 (July 2010)
MN	Minnesota Power	Electric	Rider for Boswell Unit 4 Emission Reduction	Miscellaneous environmental projects	Docket M-12-920 (November 2013)
MN	Northern States Power (Xcel Energy)	Electric	Metropolitan Emissions Reduction Project (later called Environmental Improvement Rider)	Miscellaneous environmental projects	Docket M-02-633 (March 2004)
MN	Northern States Power (Xcel Energy)	Electric	Transmission Cost Recovery Rider	Incremental transmission investment	Docket M-06-1103 (November 2006)
MN	Northern States Power (Xcel Energy)	Electric	Renewable Energy Standard Cost Recovery Rider	Renewable generation	M-07-872 (March 2008)
MN	Northern States Power (Xcel Energy)	Gas	State Energy Policy Rider	Cast iron replacements	Docket M-08-261 (November 2008)
MN	Northern States Power (Xcel Energy)	Electric	Mercury Cost Recovery Rider	Miscellaneous environmental projects	Docket M-09-847 (November 2009)
MN	Otter Tail Power	Electric	Renewable Resource Cost Recovery Rider	Renewable generation	Docket M-08-119 (August 2008)
MN	Otter Tail Power	Electric	Transmission Cost Recovery Rider	Incremental transmission investment	Docket M-09-881 (January 2010)
MO	AmerenUE	Gas	Infrastructure System Replacement Surcharge	Replacement of mains, valves, service lines, regulator stations, vaults, other pipeline components or relocations	Case GT-2008-0184 (February 2008)
MO	Atmos Energy	Gas	Infrastructure System Replacement Surcharge	Replacement of mains, valves, service lines, regulator stations, vaults, other pipeline components or relocations	Docket GO-2009-0046 (October 2008)
MO	Laclede Gas	Gas	Infrastructure System Replacement Surcharge	Replacement of mains, valves, service lines, regulator stations, vaults, other pipeline components or relocations	Docket GR-2007-0208 (July 2007)
MO	Missouri American Water	Water	Infrastructure System Replacement Surcharge	Replacement of mains, associated valves and hydrants, main cleaning and refining projects	Case WO-2004-0116 (December 2003)
MO	Missouri Gas Energy	Gas	Infrastructure System Replacement Surcharge	Replacement of mains, valves, service lines, regulator stations, vaults, other pipeline components or relocations	Docket GR-2009-0355 (February 2010)

Table 2 continued

Jurisdiction	Company Name	Services Included	Tracker Name	Eligible Investments	Case Reference
MS	Atmos Energy	Gas	Supplemental Growth Rider	Extraordinary service expansions to new industrial customers for economic development	Docket 2013-UN-23 (July 2013)
MS	Centerpoint Energy	Gas	Supplemental Growth Rider	Extraordinary service expansions to new commercial and industrial customers for economic development	Docket 13-UN-214 (October 2013)
MS	Mississippi Power	Electric	Environmental Compliance Overview Plan Rate	Miscellaneous environmental projects	Docket 92-UA-0058 and 92-UN-0059 (July 1992)
MT	Northwestern Energy	Electric	NA - Amounts recovered through electric supply service rates	Generation	Docket D.2008.6.69 (November 2008)
MT	Northwestern Energy	Gas	Natural Gas Supply Tracker	Battle Creek natural gas production resources	Docket D2012.3.25 (November 2012)
NC	Aqua North Carolina	Water	Water System Improvement Charge	Replacement of distribution system mains, valves, services, meters, and hydrants, main extensions, projects to comply with primary drinking water standards, unreimbursed facility relocation costs due to highways	Docket W-218, Sub 363 (May 2014)
NC	Aqua North Carolina	Water	Sewer System Improvement Charge	Replacement of pumps, motors, blowers, and other mechanical equipment, collection main extensions designed to implement solutions to wastewater problems, improvements necessary to reduce inflow and infiltration to the collection systems as required by state and federal law and regulations, unreimbursed costs of highway relocations	Docket W-218, Sub 363 (May 2014)
NC	Carolina Water Service	Water	Water System Improvement Charge	Replacement of distribution system mains, valves, services, meters, and hydrants, main extensions, projects to comply with primary drinking water standards, unreimbursed facility relocation costs due to highways	Docket W-354, Sub 336 (March 2014)
NC	Carolina Water Service	Water	Sewer System Improvement Charge	Replacement of pumps, motors, blowers, and other mechanical equipment, collection main extensions designed to implement solutions to wastewater problems, improvements necessary to reduce inflow and infiltration to the collection systems as required by state and federal law and regulations, unreimbursed costs of highway relocations	Docket W-354, Sub 336 (March 2014)
NC	Piedmont Natural Gas	Gas	Integrity Management Rider	Investments driven by federal pipeline safety and integrity requirements	Docket G-9, Sub 631 (December 2013)
ND	Montana-Dakota Utilities	Electric	Environmental Cost Recovery Tariff	Miscellaneous environmental projects	Case PU-13-85 (December 2013)
ND	Montana-Dakota Utilities	Electric	Generation Resource Recovery Rider Tariff	New Generation	Case PU-14-108 (August 2014)
ND	Northern States Power- MN	Electric	Transmission Cost Rider	Transmission projects	Case PU-12-813 (February 2014)
ND	Northern States Power- MN	Electric	Renewable Energy Rider	North Dakota based renewable generation	Case PU-12-813 (February 2014)
ND	Otter Tail Power	Electric	Renewable Resource Rider	Renewables	Case PU-06-466 (May 2008)
ND	Otter Tail Power	Electric	Transmission Facility Cost Recovery Tariff	Transmission investments required to serve retail customers	Case PU-11-682 (April 2012)
ND	Otter Tail Power	Electric	Environmental Cost Recovery Tariff	Miscellaneous environmental projects	Case PU-13-84 (December 2013)
NE	Black Hills Nebraska Gas Utility	Gas	Infrastructure System Replacement Recovery Charge	Non-revenue increasing projects to replace existing assets	Application NG-0074
NE	SourceGas Distribution	Gas	Pipeline Replacement Charge	Projects entering service before May 2014 that are installed to comply with safety requirements as replacements for existing facilities, projects that will extend the useful life of existing assets or enhance pipeline integrity, facility relocations	Application NG-0072 (June 2013)
NE	SourceGas Distribution	Gas	System Safety and Integrity Rider	Projects entering service after April 2014 that comply with federal regulations including transmission and distribution integrity management plans or are facility relocations costing \$20,000 or more	Application NG-0078 (October 2014)
NH	Aquarion Water of New Hampshire	Water	Water Infrastructure and Conservation Adjustment Charge	Projects to upgrade or replace non-revenue producing assets including main, valve, and hydrant replacement, main cleaning and relining, and non-reimbursable relocations	Docket DW 08-098 (September 2009)
NH	Energy North	Gas	Cast Iron/Bare Steel Replacement Program	Replacement of cast iron and bare steel pipe	Docket DG-107 (June 2007)
NH	Granite State Electric	Electric	Reliability Enhancement Plan Capital Investment Allowance	Feeder hardening and asset replacement	Docket DG-107 (June 2007)
NH	Public Service Company of New Hampshire	Electric	Energy Service	Miscellaneous environmental projects	DE 11-250 (April 2012)
NH	Public Service Company of New Hampshire	Electric	Reliability Enhancement Plan	Reliability improvements	DE 09-035, DE 11-250, and DE 14-238 (June 2015)
NJ	Elizabethtown Gas	Gas	Elizabethtown Natural Gas Distribution Utility Reinforcement Effort	System hardening	Docket GO13090826 (July 2014)
NJ	New Jersey American Water	Water	Distribution System Improvement Charge	Incremental non-revenue water main replacement, rehabilitation, or mandated relocation projects, service line replacements, valve and hydrant replacement	Docket WR12070669 (October 2012)
NJ	New Jersey Natural Gas	Gas	New Jersey Reinvestment in System Enhancement	Storm hardening projects	Docket GR13090828 (July 2014)
NJ	Public Service Electric and Gas	Electric	Solar Generation Investment Program	Solar generation	Docket EO09020125 (August 2009)
NJ	Public Service Electric and Gas	Electric & Gas	Capital Infrastructure Investment Program	Electric: reliability upgrades & feeder replacement, Gas: replacement of cast iron & bare steel mains and services	Dockets GO09010050, EO11020088, GO10110862 (April 2009 and July 2011)
NJ	Public Service Electric and Gas	Electric & Gas	Energy Strong Adjustment Mechanism	Electric: substation flood mitigation, grid reconfiguration strategies, and smart grid; Gas: Metering and regulating station flood mitigation, replacement of utilization pressure cast iron in flood prone areas	Docket EO13020155, GO13020156 (May 2014)
NJ	South Jersey Gas	Gas	Storm Hardening and Reliability Program	Replacement of low pressure mains and services with high pressure mains and services, removal of regulator stations, installation of excess flow valves in coastal areas	Docket GO13090814 (August 2014)
NJ	United Water New Jersey	Water	Distribution System Improvement Charge	Repair, replace, and/or clean mains, replace valves, hydrants, and service lines	Docket WR12080724 (October 2012)
NV	Southwest Gas	Gas	Gas Infrastructure Replacement Mechanism	Early vintage pipe replacements, conversion of master metered customers to individual meters	Docket 14-10002 (December 2014)

Table 2 continued

Jurisdiction	Company Name	Services Included	Tracker Name	Eligible Investments	Case Reference
NY	Corning Natural Gas	Gas	Safety and Reliability Charge	Replacement of leak prone pipe and ancillary costs to maintain a safe and reliable system	Case 11-G-0280 (October 2015)
NY	Keyspan Energy Long Island	Gas	Leak Prone Pipe Surcharge	Accelerated leak prone pipe removal program	Case 12-G-0214 (December 2014 and March 2015)
NY	Long Island American Water	Water	System Improvement Charge	Iron removal, storage tank rehabilitation, suction well rehabilitation at selected plants, customer information system	Case 11-W-0200 (March 2012)
NY	United Water New Rochelle	Water	Long Term Main Renewal Project	Cleaning and relining of mains	Case 99-W-0948 (August 2000)
NY	United Water New York	Water	Underground Infrastructure Renewal Program	Replacement of infrastructure including mains, valves, services, meters, and hydrants	Case 06-W-0131 (December 2006)
NY	United Water New York	Water	New Water Supply Source Surcharge	Projects to provide new sources of water in the short and long term	Case 06-W-0131 (December 2006)
OH	Aqua Ohio	Water	System Infrastructure Improvement Surcharge	Replacement of service lines, mains, hydrants, valves, main extensions to resolve documented water supply problems	Case 04-1824-WW-SIC (March 2005)
OH	Cleveland Electric Illuminating	Electric	Rider AMI	Ohio Site Deployment	Cases 09-1820-EL-ATA and 12-1230-EL-SSO
OH	Cleveland Electric Illuminating	Electric	Delivery Capital Recovery Rider	Distribution, subtransmission, general, and intangible plant not included in most recent rate case	Case 10-388-EL-SSO (August 2010)
OH	Columbia Gas	Gas	Infrastructure Replacement Program Rider	Replacement of cast iron and bare steel mains & services, AMI	Cases 08-0072-GA-AIR, 08-0073-GA-ALT, 08-0074-GA-AAM, and 08-0075-GA-AAM (December 2008); Case 09-1036-GA-RDR (April 2010)
OH	Duke Energy Ohio	Gas	Accelerated Main Replacement Program Rider	Replacement of bare steel and cast iron mains and services and faulty risers	1478-GA-ALT, and 01-1539-GA-AAM (May 2002); 07-0589-GA-AIR 07-0590-GA-ALT 07-0591-GA-AAM (May 2008)
OH	Duke Energy Ohio	Gas	Advanced Utility Rider	Gas AMI	Cases 07-0589-GA-AIR, 07-0590-GA-ALT, and 07-0591-GA-AAM (May 2008)
OH	Duke Energy Ohio	Electric	Infrastructure Modernization Distribution Rider	Electric AMI	Cases 08-920-EL-SSO and 08-921-EL-AAM and 08-922-EL-UNC and 08-923-EL-ATA (December 2008)
OH	Duke Energy Ohio	Electric	Distribution Capital Investment Rider	Distribution capital investments not recovered through other trackers	Case 14-841-EL-SSO (April 2015)
OH	East Ohio Gas d/b/a Dominion East Ohio	Gas	Pipeline Infrastructure Replacement Rider	Bare steel and cast iron pipelines & faulty riser replacements	Case 08-169-GA-ALT (October 2008)
OH	East Ohio Gas d/b/a Dominion East Ohio	Gas	Automated Meter Reading Charge	AMR	Cases 07-0829-GA-AIR and 06-1453-GA-UNC (October 2008); Case 09-38-GA-UNC (May 2009); Case 09-1875-GA-RDR (May 2010)
OH	Ohio American Water	Water	System Improvement Charge	Non-revenue producing service lines, hydrants, mains, valves, main extensions that improve supply problems, main cleaning	Case 05-577-WW-SIC (August 2005)
OH	Ohio Edison	Electric	Rider AMI	Ohio Site Deployment	Cases 09-1820-EL-ATA and 12-1230-EL-SSO
OH	Ohio Edison	Electric	Delivery Capital Recovery Rider	Distribution, subtransmission, general, and intangible plant not included in most recent rate case (filed in 2007)	Case 10-388-EL-SSO (August 2010)
OH	Ohio Power	Electric	Distribution Investment Rider	Net distribution capital additions since the date certain of most recent rate case not recovered through other riders	Case 11-346-EL-SSO
OH	Ohio Power	Electric	GridSMART Rider (Phase I)	Smart grid	Case 08-917-EL-SSO and 08-918-EL-SSO (March 2009)
OH	Toledo Edison	Electric	Rider AMI	Ohio Site Deployment	Cases 09-1820-EL-ATA and 12-1230-EL-SSO
OH	Toledo Edison	Electric	Delivery Capital Recovery Rider	Power distribution, subtransmission, general, and intangible plant not included in most recent rate case (filed in 2007)	Case 10-388-EL-SSO (August 2010)
OH	Vectren Energy Delivery	Gas	Distribution Replacement Rider	Replacement of cast iron and bare steel mains and services	Cases 07-1081-GA-ALT, 07-1080-GA-AIR and 08-0632-GA-AAM (January 2009)
OK	Oklahoma Gas & Electric	Electric	System Hardening Recovery Rider	Undergrounding and other circuit hardening	Cause PUD 20080387, Order 567670 (May 2009)
OK	Oklahoma Gas & Electric	Electric	Smart Grid Rider	Smart grid	Cause PUD 201000029 (July 2010)
OK	Oklahoma Gas & Electric	Electric	Crossroads Rider	Crossroads Wind Farm	Cause PUD 201000037 (July 2010)
OK	Public Service Company of Oklahoma	Electric	System Reliability Rider	Grid resiliency projects	Cause PUD 201300202 (January 2014)
OK	Public Service Company of Oklahoma	Electric	Advanced Metering Infrastructure Tariff	Advanced metering infrastructure deployment	Cause PUD 201300217 (April 2015)
OR	Northwest Natural Gas	Gas	System Integrity Program	Bare steel replacement, transmission integrity management program, distribution integrity management program	Docket UM 1406, Order 09-067 (March 2009)
OR	PacifiCorp	Electric	Renewable Adjustment Clause	Renewable generation	Docket UM 1330 (December 2007)
OR	PacifiCorp	Electric	Lake Side 2 Tariff Rider	Generation	Docket UE 263, Order 13-474 (December 2013)
OR	PacifiCorp	Electric	M2O Transmission Rider	Mona to Oquirrh transmission line only if line is placed into service within 6 months of May 31, 2013	Docket UE 246, Orders 12-493 and 13-195 (December 2012 and May 2013)
OR	Portland General Electric	Electric	Renewable Adjustment Clause	Renewable generation	Docket UM 1330 (December 2007)
PA	Columbia Gas	Gas	Distribution System Improvement Charge	Replacement of cast iron, bare steel, and first generation plastic mains and services, install excess flow valves, install or relocate automated meters, and replace risers, meter bars, and service regulators	P-2012-2338282 (March 2013)
PA	Columbia Water Company	Water	Distribution System Improvement Charge	Non-expense reducing, non-revenue producing infrastructure replacement projects (e.g., mains, meters, services)	Docket P-00021979
PA	Duquesne Light	Electric	Smart Meter Charge Rider	AMI	Docket M-2009-2123948 (April 2010)
PA	Equitable Gas	Gas	Distribution System Improvement Charge	Non-expense reducing, non-revenue producing infrastructure replacement projects (e.g., mains, meters, services)	Docket P-2013-2342745 (July 2013)
PA	Metropolitan Edison	Electric	Smart Meters Technologies Charge	AMI	Docket M-2009-2123950 (April 2010)

Table 2 continued

Jurisdiction	Company Name	Services Included	Tracker Name	Eligible Investments	Case Reference
PA	PECO	Electric	Smart Meter Cost Recovery Rider	AMI	Docket M-2009-2123944 (April 2010)
PA	PECO	Electric	Distribution System Improvement Charge	Storm hardening and resiliency measures, underground cable replacement, substation retirements, and facility relocations	Docket P-2015-2471423 (October 2015)
PA	PECO	Gas	Distribution System Improvement Charge	Non-expense reducing, non-revenue producing infrastructure replacement projects (e.g., mains, meters, services)	Docket P-2013-2347340 (September 2015)
PA	Pennsylvania Electric	Electric	Smart Meters Technologies Charge	AMI	Docket M-2009-2123950 (April 2010)
PA	Pennsylvania Power	Electric	Smart Meters Technologies Charge	AMI	Docket M-2009-2123950 (April 2010)
PA	Pennsylvania-American Water	Water	Distribution System Improvement Charge	Non-expense reducing, non-revenue producing infrastructure replacement projects (e.g., mains, meters, services)	Docket P-000961031 (August 1996)
PA	Peoples Natural Gas	Gas	Distribution System Improvement Charge	Non-expense reducing, non-revenue producing infrastructure replacement projects (e.g., mains, meters, services)	Docket P-2013-2344596 (May 2013)
PA	Peoples TWP	Gas	Distribution System Improvement Charge	Non-expense reducing, non-revenue producing infrastructure replacement projects (e.g., mains, meters, services)	Docket P-2013-2344595 (May 2013)
PA	Philadelphia Gas Works	Gas	Distribution System Improvement Charge	Non-expense reducing, non-revenue producing infrastructure replacement projects (e.g., mains, meters, services)	Docket P-2012-2337737 (April 2013)
PA	Philadelphia Suburban Water	Water	Distribution System Improvement Charge	Non-expense reducing, non-revenue producing infrastructure replacement projects (e.g., mains, meters, services)	Docket P-00961035 (August 1996)
PA	PPL Electric Utilities	Electric	Act 129 Compliance Rider	AMI	Docket M-2009-2123945 (January 2010)
PA	PPL Electric Utilities	Electric	Distribution System Improvement Charge	Non-expense reducing, non-revenue producing infrastructure replacement projects (e.g., poles, wires)	Docket P-2012-2325034 (May 2013)
PA	UGI Central Penn Gas	Gas	Distribution System Improvement Charge	Non-expense reducing, non-revenue producing infrastructure replacement projects (e.g., mains, meters, services)	Docket P-2013-2398835 (September 2014)
PA	UGI Penn Natural Gas	Gas	Distribution System Improvement Charge	Non-expense reducing, non-revenue producing infrastructure replacement projects (e.g., mains, meters, services)	Docket P-2013-2397056 (September 2014)
PA	West Penn Power	Electric	Smart Meter Surcharge	AMI	Docket M-2009-2123951 (June 2011)
RI	Narragansett Electric (electric operations)	Electric	Electric Infrastructure, Safety, and Reliability Plan Factor	Replacements and load growth	Docket 4218 (December 2011)
RI	Narragansett Electric (gas operations)	Gas	Gas Infrastructure, Safety, and Reliability Plan Factor	Previous accelerated capital replacement program investments plus main and service replacements and reliability investments	Docket 4219 (September 2011)
SC	South Carolina Electric & Gas	Electric	NA	Nuclear generation	Docket 2008-196-E (March 2009)
SD	Black Hills Power	Electric	Environmental Improvement Adjustment tariff	Miscellaneous environmental projects	Docket EL11-001
SD	Black Hills Power	Electric	Phase in plan rate	Gas-fired generation	Docket EL12-062 (September 2013)
SD	Northern States Power- MN	Electric	Environmental Cost Recovery Tariff	Miscellaneous environmental projects	Docket EL07-026 (January 2009)
SD	Northern States Power- MN	Electric	Transmission Cost Recovery Tariff	Transmission	Docket EL07-007 (January 2009)
SD	Northern States Power- MN	Electric	Infrastructure Rider	Generation	Docket EL 12-046 (April 2013)
SD	Otter Tail Power	Electric	Transmission Cost Recovery Tariff	Retail sales portion of specific transmission projects	Docket EL 10-015 (November 2011)
SD	Otter Tail Power	Electric	Environmental Quality Cost Recovery Tariff	Miscellaneous environmental projects	Docket EL 14-082 (December 2014)
TN	Piedmont Natural Gas	Gas	Integrity Management Rider	Distribution and transmission integrity management planning as required by the US Department of Transportation	Docket 13-00118 (May 2014)
TX	AEP Texas Central	Electric	Advanced Metering System Surcharge	AMI	Docket 36928
TX	AEP Texas North	Electric	Advanced Metering System Surcharge	AMI	Docket 36928
TX	Atmos Energy Mid Tex	Gas	Gas Reliability Infrastructure Program	Incremental investment in new and replacement pipe, pipeline integrity including mains replacement	Texas Utilities Code 104.301 and Gas Utilities Docket 9615
TX	Atmos Energy Pipelines	Gas	Gas Reliability Infrastructure Program	Incremental investment in new and replacement pipe, pipeline integrity including mains replacement	Gas Utilities Dockets 9615 and 10640
TX	Atmos Energy West Texas Division	Gas	Gas Reliability Infrastructure Program	Incremental investment in new and replacement pipe, pipeline integrity including mains replacement	Texas Utilities Code 104.301 and Gas Utilities Docket 9608
TX	Centerpoint Energy Entex - Houston Division	Gas	Gas Reliability Infrastructure Program	Incremental investment in new and replacement pipe, pipeline integrity including mains replacement	Texas Utilities Code 104.301 and Gas Utilities Docket 10067
TX	Centerpoint Energy Houston Electric	Electric	Advanced Metering System Surcharge	AMI	Docket 35620 (August 2008)
TX	Centerpoint Energy Houston Electric	Electric	Distribution Cost Recovery Factor	Change in net distribution rate base since last rate case	Docket 44572 (August 2015)
TX	Oncor Electric Delivery	Electric	Advanced Metering System Surcharge	AMI	Docket 35718 (August 2008)
TX	Texas-New Mexico Power	Electric	Advanced Metering System Surcharge	AMI	Docket 38306 (July 2011)
UT	Questar Gas	Gas	Infrastructure Rate Adjustment Tracker	Replacement of aging high-pressure feeder lines	Docket 09-057-16 (June 2010)
VA	Appalachian Power	Electric	Environmental & Reliability Cost Recovery Surcharge	Miscellaneous environmental & reliability projects	Docket PUE-2007-00069 (December 2007)
VA	Appalachian Power	Electric	Environmental Rate Adjustment Clause	Miscellaneous environmental projects	Case PUE-2011-00035 (November 2011)
VA	Appalachian Power	Electric	Generation Rate Adjustment Clause	Dresden plant	Docket PUE-2011-00036 (January 2012)
VA	Atmos Energy	Gas	Infrastructure Reliability and Replacement Adjustment	Replacement of first generation plastic pipe and service lines and bare steel mains and services	Case PUE-2012-00049 (August 2012)
VA	Columbia Gas of Virginia	Gas	SAVE Rider	Replacement of bare steel and cast iron mains, some early plastic pipe, isolated bare steel services, and risers prone to failure	Case PUE-2011-00049 (November 2011)
VA	Roanoke Gas Company	Gas	SAVE Rider	Replacement of cast iron mains, bare steel mains and services and pre-1973 plastic pipe	Case PUE-2012-00030 (August 2012)
VA	Virginia Electric Power	Electric	Rider S	Virginia City Hybrid Energy Center	Case PUE-2007-00066 (March 2008)
VA	Virginia Electric Power	Electric	Rider R	Bear Garden Generating Station	Case PUE-2009-00017 (March 2010)
VA	Virginia Electric Power	Electric	Rider W	Warren County Power Station	Case PUE-2011-00042 (February 2012)
VA	Virginia Electric Power	Electric	Rider B	Biomass conversions	Case PUE-2011-00073 (March 2012)
VA	Virginia Electric Power	Electric	Rider BW	Brunswick County Power Station (natural gas combined cycle generating station)	Case PUE-2012-00128 (August 2013)

Table 2 continued

<b>Jurisdiction</b>	<b>Company Name</b>	<b>Services Included</b>	<b>Tracker Name</b>	<b>Eligible Investments</b>	<b>Case Reference</b>
VA	Virginia Natural Gas	Gas	SAVE Rider	Replacement of first generation plastic mains, cast and wrought iron mains, bare and ineffectively coated steel mains, and service lines installed prior to 1971	Case PUE-2012-00012 (June 2012)
VA	Washington Gas Light	Gas	SAVE Rider	Replacement of bare and unprotected steel services and mains, mechanically coupled pipe, copper services, cast iron main, and pre-1975 plastic services	Cases PUE-2010-00087 and PUE-2012-00096 (April 2011 and November 2012)
WA	Cascade Natural Gas	Gas	Pipeline Replacement Program Cost Recovery Mechanism	Replacement of bare steel and poorly coated pipelines and distribution systems	Docket PG-131838 (October 2013)
WV	Appalachian Power	Electric	Construction/765kW Surcharge	Generation, environmental	Case 11-0274-E-GI (June 2011)
WV	Monongahela Power	Electric	Vegetation Management Surcharge	Capitalized distribution vegetation management expenses	Case 14-0702-E-42T (February 2015)
WV	Potomac Edison	Electric	Vegetation Management Surcharge	Capitalized distribution vegetation management expenses	Case 14-0702-E-42T (February 2015)
WV	Wheeling Power	Electric	Construction/765kW Surcharge	Generation, environmental	Case 11-0274-E-GI (June 2011)
WY	Black Hills Power	Electric	Cheyenne Prairie Generating Station rate rider tariff	Construction of Cheyenne Prairie Generating Station	Docket 20002-84-ET-12 (November 2012)
WY	Cheyenne Light, Fuel, & Power	Electric	Cheyenne Prairie Generating Station rate rider tariff	Construction of Cheyenne Prairie Generating Station	Docket 20003-123-ET-12 (November 2012)

### III. Relaxing the Link Between Revenue and System Use

Policymakers are increasingly interested in relaxing the link between the revenues utilities realize, and the kWh and kW of system use by customers. This reduces the financial attrition that results from slowing growth in system use (given legacy rate designs) more efficiently than frequent rate cases. In addition, utilities have more incentive to embrace DSM. Three approaches to relaxing the revenue/usage link are well established: lost revenue adjustment mechanisms (“LRAMs”), revenue decoupling, and fixed/variable pricing.

#### A. Lost Revenue Adjustment Mechanisms

LRAMs keep utilities whole for short-term losses in base rate revenues that are due to their DSM programs (and potentially also DG). Recovery usually is effected through a special rate rider. Estimates of load losses are needed.

LRAMs encourage utilities to embrace DSM that is eligible for LRAM treatment. They do not provide recovery for the revenue impact of external forces, like DSM programs managed by independent agencies, which slow load growth. Estimates of load savings from utility DSM can be complex and are sometimes controversial. The scope of DSM initiatives addressed by LRAMs is therefore frequently limited to those for which load impacts are easier to measure. When usage charges are high, the utility remains at risk for revenue fluctuations in volumes and peak load due to weather, local economic activity, and other volatile demand drivers.

Precedents for LRAMs are detailed in Table 3 and Figure 4 below.<sup>3</sup> LRAMs are currently the most popular means of relaxing the link between revenue and system use in the US electric utility industry. Since our 2013 survey, LRAMs have been adopted for electric utilities in Arizona, Louisiana, and Mississippi. A few utilities have LRAMs that address DG. LRAMs are less popular for gas distributors since the declining average use they have typically experienced for many years is due chiefly to external forces that LRAMs don’t address. Some utilities have LRAMs for some services and revenue decoupling for others. In New York, for example, some natural gas distributors have decoupling for residential and commercial customers and LRAMs for some large load customers.

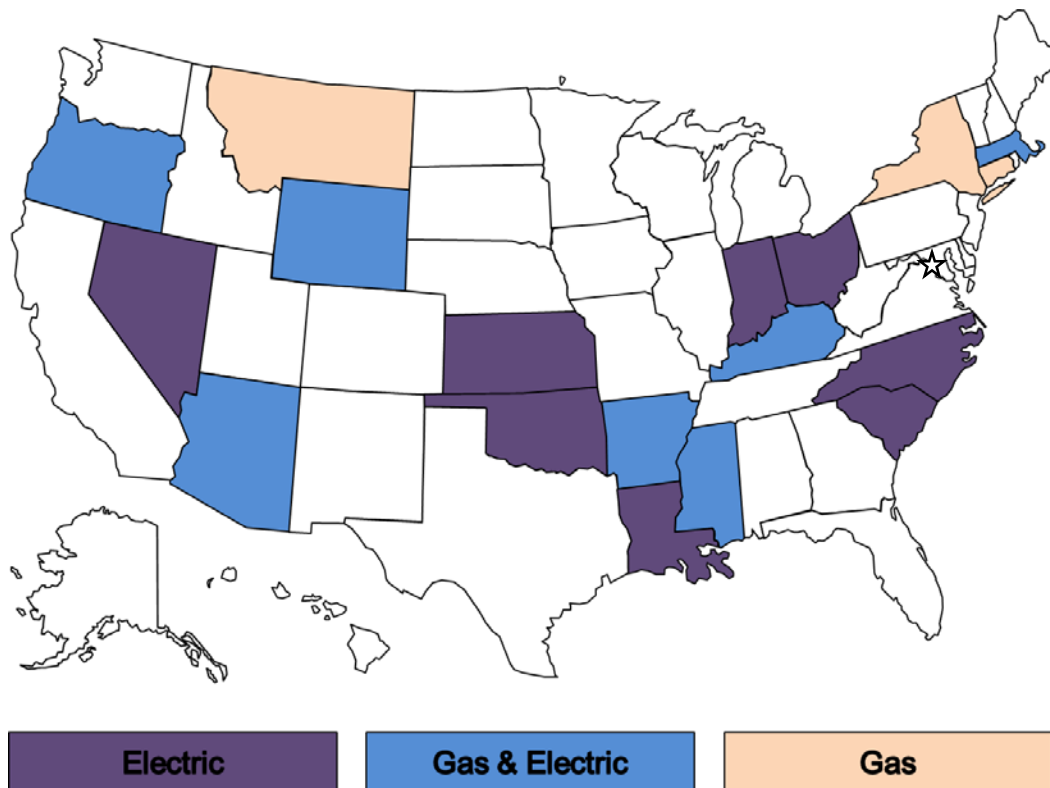
#### B. Revenue Decoupling

Revenue decoupling adjusts a utility’s rates periodically to help its actual revenue track its allowed revenue more closely. Most decoupling systems have two basic components: a revenue decoupling mechanism (“RDM”) and a revenue adjustment mechanism (“RAM”). The RDM tracks variances between actual and allowed revenue and adjusts rates to reduce them. The RAM escalates allowed revenue to provide relief for growing cost pressures.

<sup>3</sup> Some mechanisms similar to LRAMs are excluded from this survey.



Figure 4: Current LRAMs by State



RDMs can make true ups annually or more frequently. More frequent adjustments cause actual revenue to track allowed revenue more closely so that rate adjustments are smaller. The size of the rate adjustment that is permitted in a given year is sometimes capped. A “soft” cap permits utilities to defer for later recovery account balances that cannot be drawn down immediately. A “hard” cap does not.

RDMs vary in the scope of services to which they apply. Quite commonly, only revenues from residential and commercial business customers are decoupled. These customers account for a high share of a distributor’s base rate revenue and are often the primary focus of DSM programs. RDMs also vary in terms of the services for which revenues are pooled for true up purposes. In some plans all services are placed in the same “basket.” Other plans have multiple baskets, and these insulate customers of services in each basket from changes in revenue for services in other baskets.

Some RDMs are “partial” in the sense that they exclude from decoupling the revenue impact of certain kinds of demand fluctuations. For example, true ups are sometimes allowed only for the difference between allowed revenue and weather normalized actuals. An RDM that instead accounts for *all* sources of demand variance is called a “full” decoupling mechanism.

Table 3

## Current LRAM Precedents<sup>1</sup>

State	Company	Services	Approval Date	Case Reference
AR	Arkansas Oklahoma Gas	Gas	June 2011	Docket 07-077-TF, Order Number 30
AR	Centerpoint Energy Arkla	Gas	June 2011	Docket 07-081-TF, Order Number 31
AR	Entergy Arkansas	Electric	June 2011	Docket 07-085-TF, Order Number 40
AR	Oklahoma Gas & Electric	Electric	June 2011	Docket 07-075-TF, Order 26
AR	SourceGas Arkansas	Gas	June 2011	Docket 07-078-TF, Order 26
AR	Southwestern Electric Power	Electric	June 2011	Docket 07-082-TF, Orders 35 and 36
AZ	Arizona Public Service	Electric	May 2012	Docket E-01345A-11-0224, Decision 73183
AZ	Tucson Electric Power	Electric	June 2013	Docket E-01933A-12-0291; Decision 73912
AZ	UNS Electric	Electric	September 2013	Docket E-04204A-12-0504; Decision 74235
AZ	UNS Gas	Gas	May 2012	Docket G-04204A-11-0158 Decision 73142
CT	Southern Connecticut Gas	Gas	August 1995	Docket 93-03-09
CT	Yankee Gas Service	Gas	January 2012	Docket 11-10-03
IN	Duke Energy Indiana (PSI)	Electric	February 2010	Cause 43374
IN	Indiana-Michigan Power	Electric	September 2010	Cause 43827
IN	Northern Indiana Public Service	Electric	May 2011	Cause 43618
IN	Southern Indiana Gas & Electric	Electric	August 2011 (large commercial and industrials), June 2012 (residential and small commercial)	Causes 43938 and 43405 DSMA 9 S1
KS	Kansas Gas & Electric	Electric	January 2011	Docket 10-WSEE-775-TAR
KS	Westar Energy	Electric	January 2011	Docket 10-WSEE-775-TAR
KY	Atmos Energy	Gas	September 2009	Case 2008-00499
KY	Columbia Gas of Kentucky	Gas	October 2009	Case 2009-00141
KY	Delta Natural Gas	Gas	July 2008	Docket 2008-00062
KY	Duke Energy Kentucky	Electric	December 1995 and February 2005	Cases 95-321 and 2004-00389
KY	Duke Energy Kentucky	Gas	February 2005	Case 2004-00389
KY	Kentucky Power	Electric	December 1995	Case 95-427
KY	Kentucky Utilities	Electric	May 2001	Case 2000-0459
KY	Louisville Gas & Electric	Electric & Gas	November 1993	Case 93-150
LA	Cleco Power	Electric	October 2014	Docket R-31106
LA	Entergy Gulf States Louisiana	Electric	October 2014	Docket R-31106
LA	Entergy Louisiana	Electric	October 2014	Docket R-31106
LA	Southwestern Electric Power	Electric	October 2014	Docket R-31106
MA	All Electric distributors	Electric	July 2012	D.P.U. 12-01A
MA	Berkshire Gas	Gas	October 1992	D.P.U. 91-154
MA	Commonwealth Gas d/b/a NSTAR Gas	Gas	November 1994	D.P.U. 94-128

Table 3 (cont'd)

State	Company	Services	Approval Date	Case Reference
MA	NSTAR Electric	Electric	April 1992, June 1994, and June 2010	D.P.U. 90-335, D.P.U. 94-2/3-CC, and D.P.U. 10-06
MS	Atmos Energy	Gas	August 2014	Docket 2014-UA-017
MS	Centerpoint Energy	Gas	August 2014	Docket 2014-UA-007
MS	Entergy Mississippi	Electric	September 2014	Docket 2009-UN-064
MS	Mississippi Power	Electric	March 2015	Docket 2014-UN-10
MT	Montana-Dakota Utilities	Gas	October 2006	Docket D2005.10.156; Order 6697c
NC	Duke Energy Carolinas	Electric	February 2010	Docket E-7, Sub 831
NC	Progress Energy Carolinas (Carolina Power & Light)	Electric	November 2009	Docket E-2, Sub 931
NC	Virginia Electric Power	Electric	October 2011	Docket E-22, Sub 464
NV	Nevada Energy	Electric	May 2011	Docket 10-10024
NV	Sierra Pacific Power	Electric	May 2011	Docket 10-10025
NY	Keyspan Long Island	Gas	December 2009	Case 06-G-1186; Currently effective for all customers not in RDM
NY	Keyspan New York	Gas	December 2009	Case 06-G-1185; Currently effective for all customers not in RDM
OH	American Electric Power (Ohio Power, Columbus Southern Power)	Electric	May 2010	Docket 09-1089-EL-POR; Effective for classes not included in RDM
OH	Dayton Power & Light	Electric	June 2009	Docket 08-1094-EL-SSO
OH	Duke Energy Ohio (Cincinnati Gas & Electric)	Electric	July 2007 and August 2012	Dockets 06-0091-EL-UNC and 11-4393-EL-RDR; Effective for classes not included in RDM
OH	First Energy Ohio (Cleveland Electric Illuminating, Toledo Edison, Ohio Edison)	Electric	March 2009	Docket 08-935-EL-SSO
OK	Empire District Electric	Electric	November 2009	Cause 200900146 Order 571326
OK	Oklahoma Gas & Electric	Electric	July 2008	Cause 200800059 Order 556179
OK	Public Service of Oklahoma	Electric	January 2010	Cause PUD 200900196; Order 572836
OR	Cascade Natural Gas	Gas	April 2006	Order 06-191; UG 167 Effective for classes not included in RDM
OR	Portland General Electric	Electric	September 2001	Order 01-836; UE 79 Effective for classes not included in RDM
OR	Avista Utilities	Gas	December 1993	Order 93-1881
SC	Duke Energy Carolinas	Electric	January 2010	Docket 2009-226-E Order 2010-79
SC	Progress Energy Carolinas	Electric	June 2009	Docket 2008-251-E Order 2009-373
SC	South Carolina Electric & Gas	Electric	July 2010	Docket 2009-261-E, Order 2010-472
WY	Cheyenne Light, Fuel, and Power	Electric & Gas	September 2011	Dockets 20003-108-EA-10 and 30005-140-GA-10
WY	Montana-Dakota Utilities	Electric	January 2007	Docket 20004-65-ET-06

<sup>1</sup> LRAMs listed here include only those mechanisms that compensate utilities for actual revenues lost due to DSM and DG.

The great majority of decoupling systems have a RAM since, if allowed revenue is static, the utility will experience financial attrition as its costs inevitably rise. Utilities that do not have RAMs in their decoupling systems often file frequent rate cases or are allowed to use capital cost trackers to address attrition. The more important issue in a proceeding to consider decoupling is therefore the design of the RAM rather than the need for one.

Most RAMs escalate allowed revenue only for customer growth. Escalation for customer growth is sensible because it is an important driver of cost and also highly correlated with other drivers such as peak demand. The need for rate cases is thereby reduced but is rarely eliminated since cost has other drivers such as input price inflation. When RAMs are escalated only for customer growth, utilities usually retain the freedom to file rate cases to address other cost factors and often do. Some RAMs are “broad-based” in the sense that they provide enough revenue growth to compensate the utility for several kinds of cost pressures. This can materially reduce the need for rate cases and provide a foundation for a multiyear rate plan.

Revenue decoupling compensates utilities for declining average use even if it is driven in part by external forces such as independently administered DSM programs. The lost revenue disincentive is removed for a wide array of utility initiatives to encourage DSM without requiring load impact calculations or rate designs that discourage DSM. To the extent that recovery of allowed revenue is ensured, utilities can use rate designs with usage charges more aggressively to foster DSM. This makes environmental intervenors strong supporters of decoupling. Controversy over billing determinants in rate cases with future test years is reduced.

Revenue decoupling is a popular means of relaxing the link between a utility’s revenue and customers’ kWh consumption. States that have tried gas and electric revenue decoupling are indicated on the maps below in Figures 5a and 5b, respectively. Revenue decoupling precedents in the United States and Canada are detailed in Table 4. In the electric utility industry, decoupling has been favored in states that strongly support DSM. Since our 2013 survey, decoupling has been adopted for electric utilities in Connecticut, Maine, Minnesota, and Washington state. Decoupling is the most widespread means of relaxing the revenue/usage link for gas distributors. This reflects the fact that gas distributors often experience declining average use and that this has been driven chiefly by external forces. Table 4 indicates the kinds of RAMs chosen in approved decoupling systems. Note that RAMs for electric utilities are frequently broad-based.

### **C. Fixed/Variable Pricing**

Fixed/variable pricing is an approach to rate design that uses fixed charges (charges that do not vary with the actual sales volume or peak demand) to compensate utilities for fixed costs of service. For residential and small commercial services, customer charges (a flat monthly fee per customer) are the most common fixed charge used. Base revenue thus tends to grow at the gradual pace of customer growth. A *straight* fixed/variable (“SFV”) rate design recovers *all* base revenue through fixed charges. A rate design that recovers a substantial but smaller share of fixed costs through fixed charges is sometimes called *modified* fixed/variable pricing.



Table 4  
**Revenue Decoupling Precedents**

Jurisdiction	Company Name	Services	Plan Years	Revenue Adjustment Mechanism	Case Reference
<b>Current</b>					
<b>United States</b>					
AR	Arkansas Oklahoma Gas	Gas	2014-open	No RAM but multiple capital cost trackers	Docket 13-078-U
AR	CenterPoint Energy	Gas	2008-2016	No RAM but multiple capital cost trackers	Dockets 06-161-U, 11-088-U, 12-057-TF, and 13-114-TF
AR	SourceGas Arkansas (Arkansas Western)	Gas	2014-open	No RAM but multiple capital cost trackers	Docket 13-079-U
AZ	Southwest Gas	Gas	2012-open	Customers	Docket G-01551A-10-0458
CA	Bear Valley Electric Service	Electric	2013-2016	Stairstep	Decision 14-11-002
CA	California Pacific Electric	Electric	2013-2015	Indexing	Decision 12-11-030
CA	Pacific Gas & Electric	Gas & Electric	2014-2016	Stairstep	Decision 14-08-032
CA	San Diego Gas & Electric	Gas & Electric	2012-2015	Stairstep	Decision 13-05-010
CA	Southern California Edison	Electric	2012-2014	Hybrid	Decision 12-11-051
CA	Southern California Gas	Gas	2012-2015	Stairstep	Decision 13-05-010
CA	Southwest Gas	Gas	2014-2018	Stairstep	Decision 14-06-028
CT	Connecticut Light & Power	Electric	2014-open	No RAM	Docket 14-05-06
CT	Connecticut Natural Gas	Gas	2014-open	No RAM	Docket 13-06-08
CT	United Illuminating	Electric	2013-open	Stairstep until July 2015, No RAM thereafter	Docket 13-01-19
DC	Potomac Electric Power	Electric	2010-open	Customers	Order 15556
GA	Atmos Energy	Gas	2012-open	No RAM but FRP type mechanism also in effect	Docket 34734
HI	Hawaiian Electric Company	Electric	2011-open	Hybrid	Dockets 2008-0274, 2008-0083, 2013-0141
HI	Hawaiian Electric Light Company	Electric	2012-open	Hybrid	Dockets 2008-0274, 2009-0164, 2013-0141
HI	Maui Electric	Electric	2012-open	Hybrid	Dockets 2008-0274, 2009-0163, 2013-0141
ID	Idaho Power	Electric	2012-open	Customers	Cases IPC-E-11-19, IPC-E-14-17
IL	North Shore Gas	Gas	2012-open	No RAM	Case 11-0280
IL	Peoples Gas Light & Coke	Gas	2012-open	No RAM but broad-based capital cost tracker	Case 11-0281
IN	Citizens Gas	Gas	2007-open	Customers	Cause 42767
IN	Indiana Gas	Gas	2011-2015	Customers	Cause 44019
IN	Indiana Gas	Gas	2016-2019	Customers	Cause 44598
IN	Indiana Natural Gas	Gas	2014-open	Customers	Cause 44453
IN	Vectren Southern Indiana	Gas	2011-2015	Customers	Cause 44019
IN	Vectren Southern Indiana	Gas	2016-2019	Customers	Cause 44598
MA	Bay State Gas	Gas	2015-2018	Revenue per Customer Stairstep	DPU 15-50
MA	Boston-Essex Gas	Gas	2010-open	Customers	DPU 10-55
MA	Colonial Gas	Gas	2010-open	Customers	DPU 10-55
MA	Fitchburg Gas & Electric	Gas	2011-open	Customers	DPU 11-02
MA	Fitchburg Gas & Electric	Electric	2011-open	No RAM	DPU 11-01
MA	Massachusetts Electric	Electric	2010-open	No RAM but broad-based capital cost tracker	DPU 09-39
MA	New England Gas	Gas	2011-open	Customers	DPU 10-114
MA	Western Massachusetts Electric	Electric	2011-open	No RAM	DPU 10-70
MD	Baltimore Gas & Electric	Electric	2008-open	Customers	Letter Orders ML 108069, 108061
MD	Baltimore Gas & Electric	Gas	1998-open	Customers	Case 8780
MD	Chesapeake Utilities	Gas	2006-open	Customers	Order 81054
MD	Columbia Gas of Maryland	Gas	2013-open	Customers	Order 85858
MD	Delmarva Power & Light	Electric	2007-open	Customers	Order 81518
MD	Potomac Electric Power	Electric	2007-open	Customers	Order 81517
MD	Washington Gas Light	Gas	2005-open	Customers	Order 80130
ME	Central Maine Power	Electric	2014-open	Customers	Docket 2013-00168

Table 4 (cont'd)

Jurisdiction	Company Name	Services	Plan Years	Revenue Adjustment Mechanism	Case Reference
<b>Current (cont'd)</b>					
<b>United States (cont'd)</b>					
MI	Consumers Energy	Gas	2015-open	No RAM	Case U-17643
MI	Michigan Consolidated Gas	Gas	2013-open	No RAM	Case U-16999
MI	Michigan Gas Utilities	Gas	2015-open	No RAM	Case U-17273
MN	CenterPoint Energy	Gas	2015-2018	Customers	GR-13-316
MN	Minnesota Energy Resources	Gas	2013-2016	Customers	GR-10-977
MN	Northern States Power - MN	Electric	2016-2018	Customers	GR-13-868
NC	Piedmont Natural Gas	Gas	2008-open	Customers	Docket G-9, Sub 550
NC	Public Service Co of NC	Gas	2008-open	Customers	Docket G-5, Sub 495
NJ	New Jersey Natural Gas	Gas	2014-open	Customers	Docket GR13030185
NJ	South Jersey Gas	Gas	2014-open	Customers	Docket GR13030185
NV	Southwest Gas	Gas	2009-open	Customers	D-09-04003
NY	Central Hudson G&E	Gas & Electric	2015-2018	Revenue per Customer Stairstep for Gas, Stairstep for Electric	Cases 14-E-0318, 14-G-0319
NY	Consolidated Edison	Gas	2014-2016	Revenue per Customer Stairstep	Case 13-G-0031
NY	Consolidated Edison	Electric	2014-2016	Stairstep	Case 13-E-0030
NY	Corning Natural Gas	Gas	2015-2017	Customers	Case 11-G-0280
NY	Keyspan Energy Delivery - Long Island	Gas	2010-open	Revenue per Customer Stairstep through 2012, Customers After 2012	Case 06-G-1186
NY	Keyspan Energy Delivery New York	Gas	2013-2014	Revenue per Customer Stairstep through 2014, Customers After 2014	Case 12-G-0544
NY	National Fuel Gas	Gas	2013-2015	Customers	Case 13-G-0136
NY	New York State Electric & Gas	Gas	2010-2013	Revenue per Customer Stairstep through 2013, Customers thereafter	Case 09-E-0715
NY	New York State Electric & Gas	Electric	2010-2013	Stairstep through 2013, No RAM thereafter	Case 09-G-0716
NY	Niagara Mohawk	Gas	2013-2016	Optional Revenue per Customer Stairstep	Case 12-G-0202
NY	Niagara Mohawk	Electric	2013-2016	Optional Stairstep	Case 12-E-0201
NY	Orange & Rockland Utilities	Gas	2015-2018	Revenue per Customer Stairstep	Case 14-G-0494
NY	Orange & Rockland Utilities	Electric	2015-2017	Stairstep	Case 14-E-0493
NY	Rochester Gas & Electric	Gas	2010-2013	Revenue per Customer Stairstep through 2013, Customers thereafter	Case 09-E-0717
NY	Rochester Gas & Electric	Electric	2010-2013	Stairstep through 2013, No RAM thereafter	Case 09-G-0718
NY	St. Lawrence Gas	Gas	2010-open	Revenue per Customer Stairstep through 2012, Customers thereafter	Case 08-G-1392
OH	AEP Ohio	Electric	2012-2018	Customers	Cases 11-351-EL-AIR, 13-2385-EL-SSO
OH	Duke Energy Ohio	Electric	2015-open	Customers	Case 14-841-EL-SSO
OR	Cascade Natural Gas	Gas	2013-2015	Customers	Order 13-079
OR	Northwest Natural Gas	Gas	2012-open	Customers	Order 12-408
OR	Portland General Electric	Electric	2014-2016	Customers	Order 13-459
RI	Narragansett Electric	Electric	2012-open	No RAM but broad-based capital cost tracker	Docket 4206
RI	Narragansett Electric	Gas	2012-open	Customers	Docket 4206
TN	Chattanooga Gas	Gas	2013-open	Customers	Docket 09-0183
UT	Questar Gas	Gas	2010-open	Customers	Docket 09-057-16
VA	Columbia Gas of Virginia	Gas	2013-2015	Customers	Case PUE-2012-00013
VA	Virginia Natural Gas	Gas	2013-2016	Customers	Case PUE-2012-00118
VA	Washington Gas Light	Gas	2013-2016	Customers	Case PUE-2012-00138
WA	Avista	Gas & Electric	2015-2019	Customers	Dockets UE-140188 and UG-140189
WA	Puget Sound Energy	Gas & Electric	2013-2016	Revenue per Customer Stairstep	Dockets UE-121697 and UG-121705
WY	Questar Gas	Gas	2012-open	Customers	Docket 30010-113-GR-11
WY	SourceGas Distribution	Gas	2011-open	Customers	Docket 30022-148-GR-10

Table 4 (cont'd)

Jurisdiction	Company Name	Services	Plan Years	Revenue Adjustment Mechanism	Case Reference
<b>Current (cont'd)</b>					
<b>Canada</b>					
BC	BC Hydro	Electric	2015-2016	Stairstep	Order G-48-14
BC	FortisBC	Electric	2014-2019	Indexing	Order G-139-14
BC	FortisBC Energy	Gas	2014-2019	Indexing	Order G-138-14
BC	Pacific Northern Gas	Gas	2003-open	Customers	N/A
ON	Enbridge Gas Distribution	Gas	2014-2018	Stairstep	EB-2012-0459
ON	Union Gas	Gas	2014-2018	Indexing	EB-2013-0202
<b>Historic</b>					
<b>United States</b>					
AR	Arkansas Oklahoma Gas	Gas	2007-2013	No RAM	Dockets 07-026-U, 07-077-TF
AR	Arkansas Western	Gas	2008-2013	No RAM	Docket 07-078-TF
CA	Bear Valley Electric Service	Electric	2009-2012	Stairstep	Decision 09-10-028
CA	Pacific Gas & Electric	Gas & Electric	1982-1983	Hybrid	Decision 93887
CA	Pacific Gas & Electric	Electric	1984-1985	Hybrid	Decision 83-12-068
CA	Pacific Gas & Electric	Electric	1986-1989	Hybrid	Decision 85-12-076
CA	Pacific Gas & Electric	Electric	1990-1992	Hybrid	Decision 89-12-057
CA	Pacific Gas & Electric	Gas & Electric	1993-1995	Hybrid	Decision 92-12-057
CA	Pacific Gas & Electric	Gas & Electric	2004-2006	Indexing	Decision 04-05-055
CA	Pacific Gas & Electric	Gas & Electric	2007-2010	Stairstep	Decision 07-03-044
CA	Pacific Gas & Electric	Gas & Electric	2011-2013	Stairstep	Decision 11-05-018
CA	Pacific Gas & Electric	Gas	1978-1981	No RAM	Decisions 89316, 91107
CA	PacifiCorp	Electric	1984-1985	Stairstep	Decision 89-09-034
CA	San Diego Gas & Electric	Gas & Electric	1982-1983	Hybrid	Decision 93892
CA	San Diego Gas & Electric	Gas & Electric	1986-1988	Hybrid	Decision 85-12-108
CA	San Diego Gas & Electric	Electric	1989-1993	Hybrid	Decision 89-11-068
CA	San Diego Gas & Electric	Gas & Electric	1994-1999	Hybrid	Decision 94-08-023
CA	San Diego Gas & Electric	Gas & Electric	2005-2007	Indexing	Decision 05-03-025
CA	San Diego Gas & Electric	Gas & Electric	2008-2011	Stairstep	Decision 08-07-046
CA	Southern California Edison	Electric	1983-1984	Hybrid	Decision 82-12-055
CA	Southern California Edison	Electric	1986-1991	Hybrid	Decision 85-12-076
CA	Southern California Edison	Electric	2001-2003	Indexing	Decision 02-04-055
CA	Southern California Edison	Electric	2004-2006	Hybrid	Decision 04-07-022
CA	Southern California Edison	Electric	2006-2008	Hybrid	Decision 06-05-016
CA	Southern California Edison	Electric	2009-2011	Stairstep	Decision 09-03-025
CA	Southern California Gas	Gas	1979-1980	No RAM	Decision 89710
CA	Southern California Gas	Gas	1981-1982	Stairstep	Decision 92497
CA	Southern California Gas	Gas	1983-1984	Hybrid	Decision dated December 8, 1982
CA	Southern California Gas	Gas	1986-1989	Hybrid	Decision 85-12-076
CA	Southern California Gas	Gas	1990-1993	Hybrid	Decision 90-01-016
CA	Southern California Gas	Gas	1998-2002	Indexing	Decision 97-07-054
CA	Southern California Gas	Gas	2005-2007	Indexing	Decision 05-03-025
CA	Southern California Gas	Gas	2008-2011	Stairstep	Decision 08-07-046
CA	Southwest Gas	Gas	2009-2013	Stairstep	Decision 08-11-048
CO	Public Service Company of Colorado	Gas	2008-2011	Customers	Decision C07-0568
CO	Public Service Company of Colorado	Electric	2012-2014	Stairstep	Decision C12-0494
CT	United Illuminating	Electric	2009-2013	Stairstep until 2011/No RAM for 2011 onwards	Docket 08-07-04
FL	Florida Power Corporation	Electric	1995-1997	Customers	Docket 930444
ID	Idaho Power	Electric	2007-2009	Customers	Case IPC-E-04-15
ID	Idaho Power	Electric	2010-2012	Customers	Case IPC-E-09-28
IL	North Shore Gas	Gas	2008-2012	Customers	Case 07-0241
IL	Peoples Gas Light & Coke	Gas	2008-2012	Customers	Case 07-0242
IN	Citizens Gas	Gas	2007-2011	Customers	Cause 42767
IN	Vectren Energy	Gas	2007-2011	Customers	Cause 43046
IN	Vectren Southern Indiana	Gas	2007-2011	Customers	Cause 43046
MA	Bay State Gas	Gas	2009-open	Customers	DPU 09-30
ME	Central Maine Power	Electric	1991-1993	Customers	Docket 90-085
MI	Consumers Energy	Electric	2009-2011	Customers	Case U-15645
MI	Consumers Energy	Gas	2010-2012	Customers	Case U-15986
MI	Detroit Edison	Electric	2010-2011	Customers	Case U-15768
MI	Michigan Consolidated Gas	Gas	2010-2012	Customers	Case U-15985
MI	Michigan Gas Utilities	Gas	2010-2013	Customers	Case U-15990
MI	Upper Peninsula Power	Electric	2010-2011	Customers	Case U-15988
MN	CenterPoint Energy	Gas	2010-2013	Customers	Docket GR-08-1075
MT	Montana Power Company	Electric	1994-1998	Customers	Docket 93.6.24



Table 4 (cont'd)

Jurisdiction	Company Name	Services	Plan Years	Revenue Adjustment Mechanism	Case Reference
<b>Historic (cont'd)</b>					
<b>United States (cont'd)</b>					
NC	Piedmont Natural Gas	Gas	2005-2008	Customers	Docket G-44 Sub 15
ND	Northern States Power - MN	Electric	2012	Not Applicable, plan only 1 year in duration	Case PU-11-55
NJ	New Jersey Natural Gas	Gas	2007-2010	Customers	Docket GR05121020
NJ	New Jersey Natural Gas	Gas	2010-2013	Customers	Docket GR05121020
NJ	South Jersey Gas	Gas	2007-2010	Customers	Docket GR05121019
NJ	South Jersey Gas	Gas	2010-2013	Customers	Docket GR05121019
NY	Central Hudson G&E	Gas	2009-open	Customers	Case 08-E-0888
NY	Central Hudson G&E	Electric	2009	No RAM	Case 08-E-0887
NY	Central Hudson G&E	Gas & Electric	2010-2013	Revenue per Customer Stairstep for Gas, Stairstep for Electric	Case 09-E-0588
NY	Central Hudson G&E	Gas & Electric	2013-open	Customers for Gas, No RAM for Electric	Case 12-M-0192
NY	Consolidated Edison	Electric	1992-1995	Stairstep	Opinion 92-8
NY	Consolidated Edison	Gas	2007-2010	Stairstep	Case 06-G-1332
NY	Consolidated Edison	Electric	2008-open	No RAM	Case 07-E-0523
NY	Consolidated Edison	Gas	2010-2013	Revenue per Customer Stairstep	Case 09-G-0795
NY	Consolidated Edison	Electric	2010-2013	Stairstep	Case 09-E-0428
NY	Corning Natural Gas	Gas	2012-2015	Revenue per Customer Stairstep	Case 11-G-0280
NY	Keyspan Energy Delivery - New York	Gas	2010-open	Revenue per Customer Stairstep	Case 06-G-1185
NY	Long Island Lighting Company	Electric	1992-1994	Stairstep	Opinion 92-8
NY	National Fuel Gas	Gas	2008-open	Customers	Case 07-G-0141
NY	New York State Electric & Gas	Electric	1993-1995	Stairstep	Opinion 93-22
NY	Niagara Mohawk	Electric	1990-1992	Stairstep	Case 94-E-0098
NY	Niagara Mohawk	Gas	2009-open	Customers	Case 08-G-0609
NY	Niagara Mohawk	Electric	2011-open	No RAM	Case 10-E-0050
NY	Orange & Rockland Utilities	Electric	2012-2015	Stairstep	Case 11-E-0408
NY	Orange & Rockland Utilities	Electric	2011-2012	No RAM	Case 10-E-0362
NY	Orange & Rockland Utilities	Electric	2008-2011	Stairstep	Case 07-E-0949
NY	Orange & Rockland Utilities	Electric	1991-1993	Stairstep	Case 89-E-175
NY	Orange & Rockland Utilities	Gas	2012-2015	Customers	Case 08-G-1398
NY	Orange & Rockland Utilities	Gas	2009-2012	Revenue per Customer Stairstep	Case 08-G-1398
NY	Rochester Gas & Electric	Electric	1993-1996	Stairstep	Opinion 93-19
OH	Duke Energy Ohio	Electric	2012-2014	Customers	Case 11-5905-EL-RDR
OH	Vectren Energy	Gas	2007-2009	Customers	Case 05-1444-GA-UNC
OR	Cascade Natural Gas	Gas	2007-2012	Customers	Order 06-191
OR	Northwest Natural Gas	Gas	2002-2005	Customers	Order 02-634
OR	Northwest Natural Gas	Gas	2005-2009	Customers	Order 05-934
OR	Northwest Natural Gas	Gas	2009-2012	Customers	Order 07-426
OR	PacifiCorp	Electric	1998-2001	Indexing	Order 98-191
OR	Portland General Electric	Electric	1995-1996	Stairstep	Order 95-0322
OR	Portland General Electric	Electric	2009-2010	Customers	Order 09-020
OR	Portland General Electric	Electric	2011-2013	Customers	Order 10-478
TN	Chattanooga Gas	Gas	2010-2013	Customers	Docket 09-0183
UT	Questar Gas	Gas	2006-2010	Customers	Docket 05-057-T01
VA	Virginia Natural Gas	Gas	2009-2012	Customers	Case PUE-2008-00060
VA	Washington Gas Light	Gas	2010-2013	Customers	Case PUE-2009-00064
WA	Avista	Gas	2007-2009	Customers	Docket UG-060518
WA	Avista	Gas	2009-2012	Customers	Docket UG-060518
WA	Avista	Gas	2013-2014	Revenue per Customer Stairstep	Docket UG-120437
WA	Cascade Natural Gas	Gas	2005-2010	Customers	Docket UG-060256
WA	Puget Sound & Power	Electric	1991-1995	Customers	Docket UE-901184-P
WI	Wisconsin Public Service	Gas & Electric	2009-2012	Customers	D-6690-UR-119
WI	Wisconsin Public Service	Gas & Electric	2013	Not Applicable, plan only 1 year in duration	Docket 6690-UR-121
WY	Questar Gas	Gas	2009-2012	Customers	Docket 30010-94-GR-08

Table 4 (cont'd)

Jurisdiction	Company Name	Services	Plan Years	Revenue Adjustment Mechanism	Case Reference
<b>Historic (cont'd)</b>					
<b>Canada</b>					
BC	BC Gas	Gas	1994-1995	Hybrid	Order G-59-94
BC	BC Gas	Gas	1996-1997	Hybrid	N/A
BC	BC Gas	Gas	1998-2000	Hybrid	Order G-85-97
BC	BC Gas	Gas	2000-2001	Hybrid	Order G-48-00
BC	BC Hydro	Electric	2009-2010	Hybrid	Order G-16-09
BC	BC Hydro	Electric	2011	Not Applicable, plan only 1 year in duration	Order G-180-10
BC	BC Hydro	Electric	2012-2014	Stairstep	Order G-77-12A
BC	FortisBC	Electric	2012-2013	Stairstep	Order G 110-12
BC	Terasen Gas	Gas	2008-2009	Hybrid	Order G-33-07
BC	Terasen Gas	Gas	2004-2007	Hybrid	Order G-51-03
BC	Terasen Gas	Gas	2010-2011	Hybrid	Order G-141-09
BC	Terasen Gas	Gas	2012-2013	Stairstep	Order G-44-12
ON	Enbridge Gas Distribution	Gas	2008-2012	Revenue per Customer Indexing	Docket EB-2007-0615
ON	Union Gas	Gas	2008-2012	Indexing	Docket EB-2007-0606



Table 5

## Fixed Variable Residential Pricing Precedents<sup>1</sup>

Jurisdiction	Company Name	Services	Years in Place	Case Reference
CT	Connecticut Light & Power	Electric	2007-open	Docket 07-07-01
CT	Connecticut Natural Gas	Gas	2014-open	Docket 13-06-08
CT	United Illuminating	Electric	Occurred over period of years	No specific case
CT	Yankee Gas System	Gas	2011-open	Docket 10-12-02
FL	Peoples Gas System	Gas	2009-open	Docket 080318-GU
GA	Liberty Utilities	Gas	2015-open	Docket 34734
IA	Black Hills Energy	Gas	2009-open	Docket RPU-08-3
IL	Ameren CILCO	Gas	2008-2012	Case 07-0588
IL	Ameren CIPS	Gas	2008-2012	Case 07-0589
IL	Ameren IP	Gas	2008-2012	Case 07-0590
IL	Ameren Illinois	Gas	2012-open	Case 11-0282
IL	Ameren Illinois	Electric	Occurred over period of years	No specific case
IL	Commonwealth Edison	Electric	2011-2013	Case 10-0467
IL	Mt. Carmel Public Utilities	Gas	2013-open	Case 13-0079
IL	North Shore Gas	Gas	2008-open	Case 07-0241
IL	Peoples Gas Light & Coke	Gas	2008-open	Case 07-0242
KS	Atmos Energy	Gas	2010-open	Docket 10-ATMG-495-RTS
KS	Black Hills Energy (formerly Aquila)	Gas	2007-open	Docket 07-AQLG-431-RTS
KS	Kansas Gas Service	Gas	2012-open	Docket 12-KGSG-835-RTS
KY	Atmos Energy	Gas	2014-open	Case 2013-00148
KY	Columbia Gas	Gas	2013-open	Case 2013-00167
KY	Delta Natural Gas	Gas	2007-open	Case 2007-00089
KY	Duke Energy Kentucky	Gas	2010-open	Case 2009-00202
ME	Maine Natural Gas	Gas	Occurred over period of years	Docket 2009-00067
ME	Northern Utilities	Gas	2014-open	Docket 2013-00133
MO	AmerenUE	Gas	2007-open	Case GR-2007-0003
MO	Atmos Energy	Gas	2007-2010	Case GR-2006-0387
MO	Atmos Energy	Gas	2010-open	Case GR-2010-0192
MO	Empire District Gas	Gas	2010-open	Case GR-2009-0434
MO	Laclede Gas	Gas	2002-open	Case GR-2002-356
MO	Missouri Gas Energy	Gas	2007-open	Case GR-2006-0422
MS	Mississippi Power	Electric	Occurred over period of years	No specific case
ND	Xcel Energy	Gas	2005-open	Case PU-04-578
NE	SourceGas Distribution	Gas	2012-open	Docket NG-0067
NH	Liberty Utilities (EnergyNorth Natural Gas)	Gas	Occurred over period of years	No specific case
NH	Northern Utilities	Gas	2014-open	DG 13-086
NY	Central Hudson Gas & Electric	Electric & Gas	Occurred over period of years	No specific case
NY	Consolidated Edison	Electric & Gas	Occurred over period of years	No specific case
NY	Corning Gas	Gas	Occurred over period of years	No specific case
NY	Keyspan Energy Delivery - Long Island	Gas	Occurred over period of years	No specific case
NY	Keyspan Energy Delivery - New York	Gas	Occurred over period of years	No specific case
NY	National Fuel Gas	Gas	Occurred over period of years	No specific case

Table 5 (cont'd)

<b>Jurisdiction</b>	<b>Company Name</b>	<b>Services</b>	<b>Years in Place</b>	<b>Case Reference</b>
<b>NY</b>	New York State Electric & Gas	Electric	Occurred over period of years	No specific case
<b>NY</b>	Niagara Mohawk	Electric & Gas	Occurred over period of years	No specific case
<b>NY</b>	Orange & Rockland	Electric & Gas	Occurred over period of years	No specific case
<b>NY</b>	Rochester Gas & Electric	Electric & Gas	Occurred over period of years	No specific case
<b>OH</b>	Columbia Gas	Gas	2008-open	Case 08-0072-GA-AIR
<b>OH</b>	Dominion East Ohio	Gas	2008-2010	Case 07-830-GA-ALT
<b>OH</b>	Duke Energy Ohio (CG&E)	Gas	2008-open	Case 07-590-GA-ALT
<b>OH</b>	Vectren Energy Delivery of Ohio	Gas	2009-open	Case 07-1080-GA-AIR
<b>OK</b>	Arkansas Oklahoma Gas	Gas	2013-open	Cause PUD 201200236
<b>OK</b>	Centerpoint Energy	Gas	2010-open	Cause PUD 201000030
<b>OK</b>	Oklahoma Natural Gas	Gas	2004-open	Causes PUD 200400610, PUD 201000048, PUD 200900110
<b>OK</b>	Public Service Company of Oklahoma	Electric	2015-open	Cause PUD 201300217
<b>PA</b>	Columbia Gas	Gas	2013-open	Docket R-2012-2321748
<b>TN</b>	Atmos Energy	Gas	2012-open	Docket 12-00064
<b>TN</b>	Piedmont Natural Gas	Gas	2012-open	Docket 11-00144
<b>TX</b>	Atmos Energy - Mid-Tex Division	Gas	Occurred over period of years	No specific case
<b>TX</b>	Atmos Energy - West Texas Division	Gas	Occurred over period of years	No specific case
<b>TX</b>	Centerpoint Energy Houston Division	Gas	Occurred over period of years	No specific case
<b>TX</b>	Centerpoint Energy Beaumont/East Texas Division	Gas	Occurred over period of years	No specific case
<b>VA</b>	Columbia Gas of Virginia	Gas	Occurred over period of years	No specific case
<b>VT</b>	Vermont Gas Systems	Gas	Occurred over period of years	No specific case
<b>WI</b>	Madison Gas & Electric	Gas	2015-open	Docket 3270-UR-120
<b>WI</b>	Wisconsin Public Service	Gas	2015-open	Docket 6690-UR-123
<b>WY</b>	SourceGas Distribution	Gas	2011-open	Docket 30022-148-GR-10
<b>WY</b>	PacifiCorp (d/b/a Rocky Mountain Power)	Electric	2009-open	Docket 20000-333-ER-08

<sup>1</sup> Fixed variable pricing precedents include power and gas distributors that have a customer charge equal to or in excess of \$15 (or \$20 for vertically integrated electric utilities).

## IV. Forward Test Years

General rate cases involve “test years” in which revenue requirements and billing determinants (e.g., the residential delivery volume) are jointly considered in ratesetting. A historical test year ends before the rate case is filed. A forward (a/k/a “fully forecasted”) test year (“FTY”) begins after the rate case is filed. An FTY typically begins about the time the rate case is expected to end and new rates take effect. Two-year forecasts may be required in this event which span both the year of the rate case and the rate effective year.<sup>4</sup> In between forward and historical test years is the option of a “partially forecasted” test year in which some months of historical data on utility operations are combined with some months of forecasted data. Under this approach, actual data for all months usually become available during the course of the rate case.

Historical test years tend to be uncompensatory when cost is growing faster than billing determinants. Annual rate cases with historical test years can alleviate but not eliminate underearning under these conditions. The effect on credit metrics can be material.<sup>5</sup> Where historical test years are used, there are thus added advantages to implementing other Altreg innovations discussed in this survey.

Forward test years can fully compensate utilities when cost growth exceeds growth in billing determinants. If this imbalance is chronic, however, FTYs do not eliminate the problem of frequent rate cases. It is therefore not unusual for regulators to combine FTYs with other Altreg remedies, such as cost trackers or multiyear rate plans.

Many approaches are used to forecast costs in FTY rate cases. Some companies rely on their budgeting process to make cost projections. Others normalize data for an historical reference period, adjusted for known and measurable changes, and then use indexing and other statistical methods to extend projections. A mixture of forecasting methods is common. For example, index-based forecasting may be used only for O&M expenses.

FTYs were adopted in many jurisdictions during the 1970s and 1980s, when rapid inflation and major plant additions coincided with oil shock-induced slowdowns in the growth of average use. Several additional states have recently moved in the direction of FTYs. Some of these states are in the West, where comparatively rapid economic growth has required more rapid buildout of utility infrastructure.

Current state policies concerning test years are summarized below in Figure 7 and Table 6. In many jurisdictions the use of partially or fully-forecasted test years is not standardized. For example, in some jurisdictions, including Illinois and North Dakota, utilities are allowed to select their type of rate case test year. Test year selection may also be made part of the rate case (e.g., Utah). A few jurisdictions allow forward test years to be used in rate cases or formula rate plans, but not both (e.g., Illinois and Arkansas).

<sup>4</sup> A forward test year can in principle be the rate case year, and thereby not require two-year forecasts. Proposed rates can be established on an interim basis shortly after the filing.

<sup>5</sup> For evidence see “Forward Test Years for US Electric Utilities” by Mark Newton Lowry, David Hovde, Lullit Getachew, and Matt Makos, Edison Electric Institute, 2010.



Table 6

## Test Year Approaches of US Jurisdictions

Jurisdiction	Notes
<b>Fully-Forecasted Test Years Commonly Used (15)</b>	
Alabama	Utilities operate under forward-looking formula rate plans
California	
Connecticut	
FERC	Rate cases use forward test years but some formula rate plans use historical test years
Florida	
Georgia	
Hawaii	
Maine	
Michigan	
Minnesota	
New York	
Oregon	
Rhode Island	
Tennessee	
Wisconsin	
<b>Fully-Forecasted Test Years Occasionally Used (9)</b>	
Illinois	Utilities use various test years including forward test years ("FTYs")
Kentucky	Utilities use various test years including FTYs
Louisiana	Utilities use various test years including FTYs
Mississippi	Both electric utilities operate under forward-looking formula rate plans. Gas formula rate plans rely on historical test years ("HTYs").
New Mexico	A recently passed law allows for use of FTYs, and at least one rate increase based on FTY evidence has been approved
North Dakota	Utilities use various test years including FTYs
Pennsylvania	Partially-forecasted test years have traditionally been the norm. However, a law allowing fully-forecasted test years passed in 2012 and several electric utility rate increases based on FTY evidence have been approved.
Utah	Test year selection is part of the rate case and can be contested. Several recent rate cases have used FTYs.
Wyoming	Rocky Mountain Power has recently used FTYs
<b>Partially-Forecasted Test Years Commonly or Occasionally Used (8)</b>	
Arkansas	Utilities have typically used partially forecasted test years in rate cases. However, a recent bill authorized the use of formula rates with either historical or forecasted test periods.
Delaware	Before restructuring FTY filings were common, but companies have used a mix of HTYs and partially-forecasted test years in recent filings
District of Columbia	PEPCO has filed rate cases using both hybrid and historical test years recently
Idaho	
Maryland	Utilities use various test years excluding FTYs
Missouri	Utilities have the option to file partially-forecasted test years
New Jersey	
Ohio	
<b>Historical Test Years Commonly Used (20)</b>	
Alaska	
Arizona	
Colorado	Utilities have filed FTY evidence. However, no FTY rates have yet been approved but a recent case made extraordinary HTY adjustments.
Indiana	A recently passed law allows for use of FTYs, but no rate increase based on FTY evidence has been approved for an energy utility to date
Iowa	
Kansas	
Massachusetts	
Montana	
Nebraska	Nebraska has no electric IOUs. Gas companies are legally authorized to use FTYs but commonly use HTYs.
Nevada	
New Hampshire	
North Carolina	
Oklahoma	
South Carolina	
South Dakota	
Texas	
Vermont	
Virginia	
Washington	
West Virginia	



## V. Multiyear Rate Plans

Multiyear rate plans (“MRPs”) are designed to reduce regulatory cost, while increasing the utility incentive for efficient operation. Rate cases are held infrequently, most often at three to five year intervals. Between rate cases, rate escalations are based on a combination of automatic attrition relief mechanisms (“ARMs”) and cost trackers. The rate adjustments provided by ARMs are largely “external” in the sense that they give a utility an *allowance* for cost growth rather than reimbursement for its *actual* growth.

The “externalization” of ratemaking that ARMs and rate case moratoria achieve gives utilities more opportunity to profit from improved performance. Benefits of better performance can be shared between the utility and its customers. Performance incentives are strengthened despite streamlined regulation. Lower regulatory cost has special appeal in jurisdictions where numerous utilities must be regulated.

ARMs can cap growth in rates (e.g., customer charges and cents per kWh) or allowed revenue. Rate caps are favored when and where utilities are encouraged to bolster customer use of the grid. Revenue caps are usually combined with revenue decoupling mechanisms, and are often favored where utilities must cope with declining average use and/or policymakers strongly encourage DSM.

Several approaches to ARM design are well-established. These include multiyear cost forecasts, indexing, and hybrids. Indexing escalates rates (or revenue) automatically for inflation and sometimes also for growth in other cost drivers like the number of customers served. A hybrid approach to ARM design was developed in the US that involves indexing of revenue for O&M expenses and forecasts for capital cost revenue.

The indexing approach to ARM design has been more common for UDCs because their cost growth is relatively gradual and predictable. Hybrid and forecasted ARMs have historically been more common for vertically integrated electric utilities because occasional major plant additions have given their cost trajectories more of a “stairstep” pattern. However, this pattern is becoming less common in an era when demand growth is slower and fewer large power plants are under construction. Some VIEUs operating under MRPs have separate ARMs for generation and distribution.

Cost trackers are often used in MRPs to address changes in business conditions that are difficult to address using ARMs. A tracker that recovers a large portion of a utility’s capex cost can sometimes permit the company to operate under a multiyear freeze on rates for other non-energy costs. MRPs with “tracker/freeze” provisions for vertically integrated utilities often accord tracker treatment to costs of new or refurbished generating plants.<sup>8</sup> Trackers also address *force majeure* events like severe storms and changes in tax rates that affect costs.

Many MRPs feature earnings sharing mechanisms (“ESMs”) that automatically share earnings surpluses and/or deficits that result when the rate of return on equity (“ROE”) deviates from its regulated target. Some MRPs feature “off-ramps” that permit plan suspension when earnings are unusually high or low.

<sup>8</sup> A good example is the Generation Base Rate Adjustment in the current MRP of Florida Power & Light.

Plans often feature performance incentive mechanisms that are linked to the utility's service quality. With stronger cost containment incentives, there is a greater need for a link between revenue and service quality. Many MRPs combine revenue decoupling, the tracking of DSM expenses, and performance incentives for DSM. The stronger incentive to contain cost that MRPs provide then becomes a "fourth leg" for the DSM stool.

MRPs have long been used to regulate utilities where market-responsive rates and services are a priority. Infrequent rate cases reduce the regulatory cost of allocating the revenue requirement between a complex and changing mix of market offerings and lessen concerns about cross-subsidization. These benefits of MRPs can be enhanced by designing other plan provisions in ways that insulate core customers from potentially adverse consequences of marketing flexibility.

For example, in the early 1990s, Maine's electric utilities were still vertically integrated and needed flexibility in marketing power to paper and pulp customers, some of whom had cogeneration options. The commission, under the chairmanship of Thomas Welch (a former telecom industry lawyer) approved a succession of price cap plans for Central Maine Power which facilitated marketing flexibility. As a result, the company had more freedom to enter into special contracts. The stronger incentives the company had to offer the right discounts to customers at risk of bypass was acknowledged by the commission when costs were allocated in later rate cases.

MRPs were first widely used in the United States to regulate railroad, oil pipeline, and telecommunications companies. A major attraction was the ability of MRPs to afford utilities flexibility in serving markets with diverse competitive pressures and complex, changing customer needs. US and Canadian precedents for MRPs in the electricity and gas utility industries are indicated in Table 7 and Figures 8a and 8b.<sup>9</sup> In the US, MRPs have traditionally been most common in California and the Northeast. MRPs have been adopted by well-known VIEUs in Florida, North Dakota, and Virginia since our 2012 survey. A number of states have, additionally, experimented with "mini-MRPs" with terms of only two years. The forecast and tracker/freeze approaches to ARM design are most common currently in the US. The Federal Energy Regulatory Commission ("FERC") uses MRPs with index-based ARMs to regulate oil pipelines.

Canada is moving towards MRPs with index-based ARMs for gas and electric power distribution in all four populous provinces. In advanced economies overseas, MRPs are more the rule than the exception for utility regulation. Australia, Britain, and New Zealand are long time practitioners.

<sup>9</sup> Rate freezes without extensive supplemental funding from capital cost trackers are excluded from Table 7 and Figures 8a and 8b.

Figure 8a: Recent US Multiyear Rate Plan Precedents by State

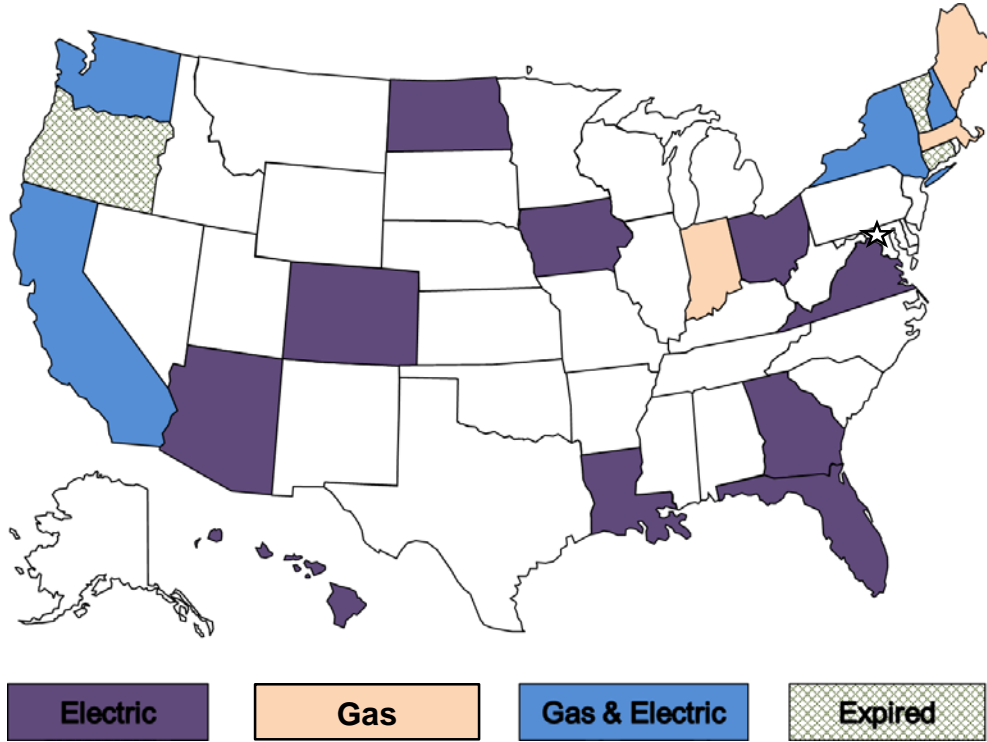


Figure 8b: Recent Canadian Multiyear Rate Plan Precedents by Province

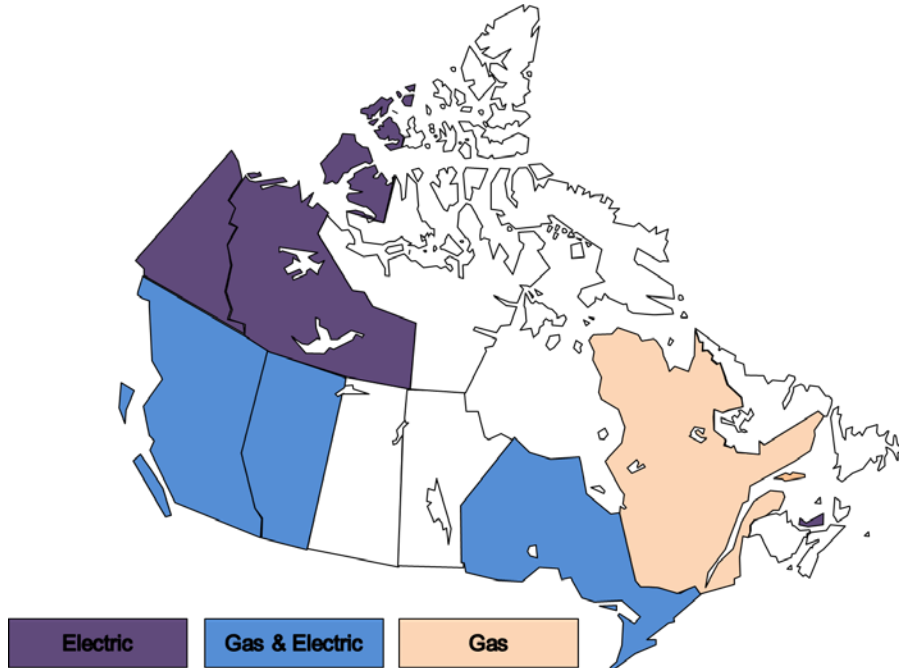


Table 7

# Multiyear Rate Plan Precedents <sup>1</sup>

Jurisdiction	Company	Plan Term	Services Covered	Rate Escalation Provisions	Earnings Sharing Provisions	Case Reference
<b>Current</b>						
<b>United States</b>						
AZ	Arizona Public Service	2012-2016	Bundled power service	Rate Freeze with an adjustment to account for purchase of SCE's share of Four Corners generating facility, additional capital and other cost trackers, LRAM	None	Decision 73183; May 2012
CA	Bear Valley Electric Service	2013-2016	Power distribution	Revenue Cap Stairstep	None	Decision 14-11-002; November 2014
CA	California Pacific Electric	2013-2015	Power distribution	Revenue Cap Index	None	Decision 12-11-030; November 2012
CA	Pacific Gas & Electric	2014-2016	Gas & bundled power service	Revenue Cap Stairstep	None	Decision 14-08-032; August 2014
CA	PacifiCorp	2011-2013, extended through 2016	Bundled power service	Price Cap Index: Rates escalated by Global Insight forecast of CPI, less 0.5% productivity factor; supplemental funding for major plant additions can be requested in annual filings	None	Decision 10-09-010; September 2010
CA	San Diego Gas & Electric	2012-2015	Gas & bundled power service	Revenue Cap Stairstep	None	Decision 13-05-010; May 2013
CA	Southern California Gas	2012-2015	Gas	Revenue Cap Stairstep	None	Decision 13-05-010; May 2013
CA	Southwest Gas	2014-2018	Gas	Revenue Cap Stairstep	None	Decision 14-06-028; June 2014
CO	Public Service of Colorado	2015-2017	Bundled power service	Rate Freeze with multiple capital cost trackers	Sharing of overearnings only up to earnings cap	Decision C15-0292; March 2014
FL	Florida Power & Light	2013-2016	Bundled power service	Rate Freeze with multiple capital and other cost trackers	None	Docket 120015-EI; December 2012
FL	Gulf Power	2014-June 2017	Bundled power service	Price Cap Stairstep through 2015, Rate Freeze beyond	None	Docket 130140-EI; December 2013
FL	Duke Energy Florida (formerly Progress Energy Florida)	2012-2016, extended through 2018	Bundled power service	Rate Freeze with one step plus capital and other cost trackers	None	Dockets 120022-EI and 130208-EI; 2012 and November 2013
FL	Tampa Electric	2013-2017	Bundled power service	Revenue Cap Stairstep	None	Docket 130040-EI
GA	Georgia Power	2014-2016	Bundled power service	Revenue Cap Stairstep	Sharing of overearnings only with deadband	Docket 36989; December 2013
HI	Hawaiian Electric Company	2012-open	Bundled power service	Revenue Cap Hybrid	Sharing of overearnings only without deadband, multiple sharing levels	Dockets 2008-0274 & 2008-0083
HI	Hawaiian Electric Light Company	2013-open	Bundled power service	Revenue Cap Hybrid	Sharing of overearnings only without deadband, multiple sharing levels	Dockets 2008-0274 & 2009-0164
HI	Maui Electric	2013-open	Bundled power service	Revenue Cap Hybrid	Sharing of overearnings only without deadband, multiple sharing levels	Dockets 2008-0274 & 2009-0163
IA	MidAmerican Energy	2014-2017	Bundled power service	Revenue Cap Stairstep for 2014-2016, Rate Freeze for 2017	Sharing of overearnings only with deadband up to earnings cap	RPU-2013-0004
IN	Northern Indiana Public Service Company	2015-2020	Gas	Rate Freeze with capital and other cost trackers, possible reopening in 2017	Earnings cap implemented if company overearns since last rate case or prior 59 months, whichever is less	Cause 43894 and 44403 TDSIC 1 (August 2013 and January 2015)
LA	Cleco Power	2014-2017	Bundled power service	Rate Freeze with capital and other cost trackers	Sharing of overearnings only with deadband up to earnings cap	Docket U-32779; June 2014
MA	Bay State Gas	2015-2018	Gas	Revenue Cap Stairstep for 2015, 2016, Revenue Freeze through October 2018	None	DPU 15-150; October 2015
ME	Summit Natural Gas of Maine	2013-2022	Gas	Price Cap Indexing: 75% of change in GDPPPI	None until company has 1,000 or more customers, then sharing of under/overearnings evenly with deadband	Docket 2012-258; January 2013
NH	Northern Utilities	May 2014 - April 2017	Gas	Revenue Cap Stairstep for 2014-2015, Rate Freeze in 2016	Sharing of overearnings only with deadband up to earning cap	DG 13-086; April 2014
NH	Public Service Company of New Hampshire	2010-2015	Power distribution (generation regulated separately)	Revenue Cap Stairstep: Rate increases allowed to account for distribution capital additions in 2010-2013	Sharing of overearnings only with deadband	DE 09-035
NH	Unitil Energy Systems	2011-2016	Power distribution	Revenue Cap Stairstep: Rate increases allowed to account for distribution capital additions in 2011-2013	Sharing of overearnings only with deadband	DE 10-055

Table 7 (cont'd)

Jurisdiction	Company	Plan Term	Services Covered	Rate Escalation Provisions	Earnings Sharing Provisions	Case Reference
<b>Current (cont'd)</b>						
<b>United States (cont'd)</b>						
NY	Central Hudson Gas & Electric	2015-2018	Gas & power distribution	Revenue Cap Stairstep	Sharing of overearnings with deadband and multiple sharing bands	Cases 14-E-0318, 14-G-0319
NY	Consolidated Edison	2014-2016	Gas	Revenue Cap Stairstep	Sharing of overearnings only with deadband and multiple bands	Case 13-G-0031
NY	Corning Natural Gas	2012-2015	Gas	Revenue Cap Stairstep	Sharing of overearnings only with deadband and multiple bands	Case 11-G-0280
NY	Orange & Rockland Utilities	November 2015-October 2018	Gas	Revenue Cap Stairstep	Sharing of overearnings only with deadband and multiple sharing bands	Case 14-G-0494
ND	Northern States Power - Minnesota	2013-2016	Bundled power service	Revenue Cap Stairstep for 2013-2015, Rate Freeze in 2016	Sharing of overearnings only without deadband, earnings adjusted for effects of weather	Case PU-12-813
OH	First Energy Ohio	2011-2014, later extended to 2016	Power distribution	Rate Freeze supplemented by capital and other cost trackers	Company subject to Significantly Excessive Earnings Test conducted annually	Cases 11-388-EL-SSO, 12-1230-EL-SSO
US	All	2011-2016	Oil pipelines	Price Cap Index: PPI-Finished Goods + 2.65%	None	Docket RM10-25-000; December 2010
VA	Appalachian Power	2014-2017	Bundled power service	Rate Freeze supplemented by capital and other cost trackers	None	Senate Bill 1349
VA	Virginia Electric Power	2015-2019	Bundled power service	Rate Freeze supplemented by capital and other cost trackers	None	Senate Bill 1349
WA	Puget Sound Energy	2013-2016	Gas & bundled power service	Revenue Cap Stairstep	Sharing of overearnings only without deadband, equal sharing between company and customers	Dockets UE-121697 and UG-121705
<b>Canada</b>						
Alberta	Altgas Utilities and ATCO Gas	2013-2017	Gas	Revenue per Customer Indexing: Input price index - 1.16%, + capital cost trackers	None	Decision 2012-237
Alberta	ATCO Electric, EPCOR, Fortis Alberta	2013-2017	Power distribution	Price Cap Index: Input Price Index - 1.16%, + capital cost trackers	None	Decision 2012-237
British Columbia	FortisBC	2014-2018	Bundled power service	Revenue Cap Index: I-Factor - 1.03%, + capital cost tracker for CPCN projects	Symmetric without deadband	Project #3698719, Decision; September 2014
British Columbia	FortisBC Energy	2014-2018	Gas	Revenue Cap Index: I-Factor - 1.1%, + capital cost tracker for CPCN projects	Symmetric without deadband	Project #3698715, Decision; September 2014
Ontario	All unless company opts out	2014-2018	Power distribution	Price Cap Index: Input price index - (0%+stretch); stretch factor reassigned annually, + capital cost tracker option available	None	EB-2010-0379 Report of the Board; November 2013
Ontario	Horizon Utilities	2015-2019	Power distribution	Revenue Cap Stairstep	Sharing of overearnings only without deadband	EB-2014-0002; December 2014
Ontario	Hydro One Networks	2015-2017	Power distribution	Revenue Cap Stairstep	None	EB-2014-0247; March 2015
Ontario	Enbridge Gas Distribution	2014-2018	Gas	Revenue Cap Stairstep	Sharing of overearnings only without deadband	EB-2012-0459, Decision with Reasons; July 2014
Ontario	Union Gas Limited	2014-2018	Gas	Revenue Cap Index: 40% of growth in GDP-IPI	Sharing of overearnings only with deadband, multiple sharing ranges	EB 2013-0202 Decision; October 2013
Prince Edward Island	Maritime Electric	2013-2016	Bundled power service	Price Cap Stairstep: Bill defines rates for each year.	Earnings cap set at allowed ROE, no floor	Bill 26 (2012) Electric Power (Energy Accord Continuation) Amendment Act
Quebec	Gazifere	2011-2015	Gas distribution	Price Cap Index	Sharing of overearnings only without deadband and multiple sharing bands up to earnings cap	D-2010-112; August 2010
Yukon Territory	Yukon Electrical Company, Limited	2013-2015	Bundled power service	Revenue Cap Stairstep	None	Board Order 2014-06; April 2014

Table 7 (cont'd)

Jurisdiction	Company	Plan Term	Services Covered	Rate Escalation Provisions	Earnings Sharing Provisions	Case Reference
<b>Current (cont'd)</b>						
<b>Great Britain</b>						
Great Britain	All	2013-2021	Gas and power transmission	British-Style Hybrid	Not reviewed	RIIO-T1 Final Proposals, April and December 2012
Great Britain	All	2013-2021	Gas distribution	British-Style Hybrid	Not reviewed	RIIO-GD1 Final Proposals, December 2013
Great Britain	All	2015-2023	Power distribution	British-Style Hybrid	Variations of cost from budgets shared through Information Quality Incentive Mechanism	RIIO-ED1 Final Proposals, December 2014
<b>Australia/New Zealand</b>						
Australia	ActewAGL	2015-2019	Power transmission & distribution	Australian-Style Hybrid	Not reviewed	Final Decision ActewAGL distribution determination 2015-16 to 2018-19; April 2015
Australia	Ausgrid	2015-2019	Power distribution	Australian-Style Hybrid	Not reviewed	Final Decision Ausgrid distribution determination 2015-16 to 2018-19; April 2015
Australia	Directlink	2015-2020	Power transmission	Australian-Style Hybrid	Not reviewed	Final Decision Directlink transmission determination 2015-16 to 2019-20; April 2015
Australia	Endeavour Energy	2015-2019	Power distribution	Australian-Style Hybrid	Not reviewed	Final Decision Endeavour Energy distribution determination 2015-16 to 2018-19; April 2015
Australia	Energex	2015-2020	Power distribution	Australian-Style Hybrid	Not reviewed	Final Decision Energex determination 2015-16 to 2019-20
Australia	Ergon Energy	2015-2020	Power distribution	Australian-Style Hybrid	Not reviewed	Final Decision Ergon Energy determination 2015-16 to 2019-20
Australia	Essential Energy	2015-2019	Power distribution	Australian-Style Hybrid	Not reviewed	Final Decision Essential Energy distribution determination 2015-16 to 2018-19; April 2015
Australia	Jemena Gas Networks	2015-2020	Gas distribution	Australian-Style Hybrid	Not reviewed	Final Decision Jemena Gas Networks (NSW) Ltd Access Arrangement 2015-20; June 2015
Australia	SA Power Networks	2015-2020	Power distribution	Australian-Style Hybrid	Not reviewed	Final Decision SA Power Networks determination 2015-16 to 2019-20
Australia	TasNetworks	2015-2019	Power transmission	Australian-Style Hybrid	Not reviewed	Final Decision TasNetworks transmission determination 2015-16 to 2018-19; April 2015
Australia	TransGrid	2015-2018	Power transmission	Australian-Style Hybrid	Not reviewed	Final Decision TransGrid transmission determination 2015-16 to 2017-18; July 2015
Australia	Power & Water	2014-2019	Power transmission & distribution	Australian-Style Hybrid	Not reviewed	2014 Networks Price Determination Final Determination Part-A Statement of Reasons; April 2014
Australia	All Queensland Distributors	2011-2016	Gas distribution	Australian-Style Hybrid	Not reviewed	Access Arrangement Proposal for Qld Gas Network, Final Decision; June 2011
Australia	Energex and Ergon Energy	2010-2015	Power distribution	Australian-Style Hybrid	Not reviewed	Queensland Distribution Determination 2011-11 to 2014-15 (Final Decision)
Australia	Envestra	2011-2016	Gas distribution	Australian-Style Hybrid	Not reviewed	Access Arrangement Proposal for the SA Gas Network, Final Decision; June 2011
Australia	All Victorian Distributors	2013-2017	Gas distribution	Australian-Style Hybrid	Not reviewed	Access Arrangement Final Decision; March 2013

Table 7 (cont'd)

Jurisdiction	Company	Plan Term	Services Covered	Rate Escalation Provisions	Earnings Sharing Provisions	Case Reference
<b>Current (cont'd)</b>						
<b>Australia/New Zealand (cont'd)</b>						
Australia	CitiPower	2011-2015	Power distribution	Australian-Style Hybrid	Not reviewed	CitiPower Pty Distribution Determination 2011-2015; September 2012
Australia	Powercor	2011-2015	Power distribution	Australian-Style Hybrid	Not reviewed	Powercor Australia Ltd Distribution Determination 2011-2015; October 2012
Australia	Jemena Electricity Networks	2011-2015	Power distribution	Australian-Style Hybrid	Not reviewed	Jemena Electricity Networks (Victoria) Ltd Distribution Determination 2011-2015; September 2012
Australia	SP AusNet	2011-2015	Power distribution	Australian-Style Hybrid	Not reviewed	SPI Electricity Pty Ltd Distribution Determination 2011-2015; August 2013
Australia	United Energy Distribution	2011-2015	Power distribution	Australian-Style Hybrid	Not reviewed	United Energy Distribution Distribution Determination 2011-2015; September 2012
New Zealand	All but Orion Electric	2015-2020	Power distribution	Revenue Cap Index: CPI-0% for most companies	None	Project no. 14.07/14118; November 2014
New Zealand	All	2013-2017	Gas distribution	New Zealand-Style Hybrid	Not reviewed	Project no. 15.01/13199
New Zealand	All	2013-2017	Gas transmission	New Zealand-Style Hybrid	Not reviewed	Project no. 15.01/13199
<b>Historic</b>						
<b>United States</b>						
CA	Bear Valley Electric Service	2009-2012	Power distribution	Revenue Cap Stairstep	None	Decision 09-10-028; October 2009
CA	Pacific Gas & Electric	2011-2013	Gas & bundled power service	Revenue Cap Stairstep	None	Decision 11-05-018; May 2011
CA	Pacific Gas & Electric	2007-2010	Gas & bundled power service	Revenue Cap Stairstep	None	Decision 07-03-044; March 2007
CA	Pacific Gas & Electric	2004-2006	Gas & bundled power service	Revenue Cap Index	None	Decision 04-05-055; May 2004
CA	Pacific Gas & Electric	1993-1995	Gas & bundled power service	Revenue Cap Hybrid	None	Decision 92-12-057; December 1992
CA	Pacific Gas & Electric	1990-1992	Gas & bundled power service	Revenue Cap Hybrid	None	Decision 89-12-057; December 1989
CA	Pacific Gas & Electric	1987-1989	Gas & bundled power service	Revenue Cap Hybrid	None	Decision 86-12-092; December 1986
CA	Pacific Gas & Electric	1984-1986	Gas & bundled power service	Revenue Cap Hybrid	None	Decisions 83-12-068; December 1983 and 85-12-076; December 1985
CA	PacifiCorp	2007-2009, extended to 2010	Bundled power service	Price Cap Index	None	Decisions 06-12-011; December 2006 and 09-04-017; April 2009
CA	PacifiCorp	1994-1996	Bundled power service	Price Cap Index	None	Decision 93-12-106; December 1993
CA	PacifiCorp	1984-1987	Bundled power service	Revenue Cap Hybrid	None	Decisions 84-07-150; July 1984 and 85-12-076; December 1985
CA	San Diego Gas & Electric	2008-2011	Gas & bundled power service	Revenue Cap Stairstep	None	Decision 08-07-046; July 2008
CA	San Diego Gas & Electric	2005-2007	Gas & bundled power service	Revenue Cap Index	Sharing of overearnings only with deadband and multiple sharing bands	Decision 05-03-025; March 2005
CA	San Diego Gas and Electric	1999-2002	Gas & power distribution	Price Cap Index	Sharing of overearnings only above deadband with multiple sharing bands	Decision 99-05-030; May 1999

Table 7 (cont'd)

Jurisdiction	Company	Plan Term	Services Covered	Rate Escalation Provisions	Earnings Sharing Provisions	Case Reference
<b>Historic (cont'd)</b>						
<b>United States (cont'd)</b>						
CA	San Diego Gas & Electric	1994-1999	Gas & bundled power service	Revenue Cap Hybrid	Sharing of overearnings only with deadband and multiple sharing bands up to an earnings cap	Decision 94-08-023; August 1984
CA	San Diego Gas & Electric	1989-1993	Gas & bundled power service	Revenue Cap Hybrid	None	Decision 88-12-085; December 1988
CA	San Diego Gas & Electric	1986-1988	Gas & bundled power service	Revenue Cap Hybrid	None	Decision 85-12-108; December 1985
CA	Sierra Pacific Power	2009-2011, extended to 2012	Bundled power service	Price Cap Index	None	Decision 09-10-041; October 2009
CA	Sierra Pacific Power	1990-1992	Bundled power service	Revenue Cap Hybrid	None	Decision 90-07-060; July 1990
CA	Southern California Edison	2012-2014	Bundled power service	Revenue Cap Hybrid	None	Decision 12-11-051; November 2012
CA	Southern California Edison	2009-2011	Bundled power service	Revenue Cap Stairstep	None	Decision 09-03-025; March 2009
CA	Southern California Edison	2006-2008	Bundled power service	Revenue Cap Hybrid	None	Decision 06-05-016; May 2006
CA	Southern California Edison	2004-2006	Bundled power service	Revenue Cap Hybrid	None	Decision 04-07-022; July 2004
CA	Southern California Edison	1997-2001	Power distribution	Price Cap Index	Sharing of over/underearnings outside deadband with multiple sharing bands	Decision 96-09-092; September 1996
CA	Southern California Edison	1986-1991	Bundled power service	Revenue Cap Hybrid	None	Decision 85-12-076; December 1985
CA	Southern California Gas	2008-2011	Gas	Revenue Cap Stairstep	None	Decision 08-07-046; July 2008
CA	Southern California Gas	2005-2007	Gas	Revenue Cap Index	Sharing of overearnings only with deadband and multiple sharing bands	Decision 05-03-025; March 2005
CA	Southern California Gas	1998-2003	Gas	Revenue Cap Index	Sharing of over/underearnings outside deadband with multiple sharing bands	Decision 97-07-054; July 1997
CA	Southern California Gas	1990-1993	Gas	Revenue Cap Hybrid	None	Decision 90-01-016; January 1990
CA	Southern California Gas	1985-1989	Gas	Revenue Cap Hybrid	None	1984, 85-12-076; December 1985, and 87-05-027; May 1987
CA	Southwest Gas	2009-2013	Gas	Revenue Cap Stairstep	None	Decision 08-11-048; November 2008
CO	Public Service Company of Colorado	2012-2014	Bundled power service	Revenue Cap Stairstep	Sharing of overearnings only without deadband, multiple sharing bands up to earnings cap	Decision C12-0494
CT	Connecticut Light & Power	2004-2007	Power distribution	Revenue Cap Stairstep	Even sharing of overearning without deadband	Docket 03-07-02
CT	United Illuminating	2006-2008	Power distribution	Revenue Cap Stairstep	Even sharing of overearning without deadband	Docket 05-06-04
FL	Florida Power & Light	2006-2009	Bundled power service	Rate Freeze with exception for new generating facilities after they are in service and multiple capital and other cost trackers	None	Docket 050045-EI
FL	Progress Energy Florida	2006-2009	Bundled power service	Rate Freeze with 1 step to reflect generation brought in-service and multiple capital and other cost trackers	None	Docket 050078-EI
GA	Georgia Power	2011-2013	Bundled power service	Revenue Cap Stairstep; Rate increases permitted for DSM and major generation plant additions	Sharing of overearnings only with deadband	Docket 31958
IA	MidAmerican Energy	2001-2005, extended to 2013	Bundled power service	Rate Freeze with nuclear capital and other cost trackers	Sharing of overearnings only in multiple sharing bands, deadband not applicable due to no allowed ROE	Dockets RPU-01-3 and RPU-2012-0001
LA	Cleco Power	2009-2014	Bundled power service	Rate Freeze with capital cost tracker	Sharing of overearnings only with deadband up to earnings cap	Order U-30689
MA	Bay State Gas	2006-2015, terminated in 2009	Gas distribution	Price Cap Index	75-25 shareholders-ratepayers sharing around deadband	Docket DTE 05-27
MA	Berkshire Gas	February 2002-January 2012	Gas distribution	No adjustment until September 2004, then Price Cap Index	None	Docket D.T.E. 01-56



Table 7 (cont'd)

Jurisdiction	Company	Plan Term	Services Covered	Attrition Relief Mechanism	Earnings Sharing Provisions	Case Reference
<b>Historic (cont'd)</b>						
<b>United States (cont'd)</b>						
MA	Boston Gas (I)	1997-2001	Gas distribution	Price Cap Index	75-25 shareholders-ratepayers sharing around deadband	Docket D.P.U. 96-50-C (Phase I); May 1997
MA	Boston Gas (II)	2004-2013, Terminated in 2010	Gas distribution	Price Cap Index	75-25 shareholders-ratepayers sharing around deadband	Docket DTE 03-40
MA	Blackstone Gas	November 1, 2004 - October 31, 2009	Gas distribution	Price Cap Index	Even sharing of earnings above/below deadband	Docket D.T.E. 04-79
MA	Nstar	2006-2012	Power distribution	Price Cap Index	Deadband with 50-50 sharing of over and underearnings	Docket D.T.E. 05-85
ME	Bangor Gas	2000-2009, extended to 2012	Gas distribution	Price Cap Index	Even sharing of overearnings only. No allowed ROE established for company and no determination of a deadband.	Docket 970795; June 1998
ME	Bangor Hydro Electric (I)	1998-2000	Power distribution	Price Cap Index	50/50 sharing around deadband	Docket 97-116; March 1998
ME	Central Maine Power (I)	1995-1999	Bundled power service	Price Cap Index	Even sharing of earnings above/below deadband	Docket 92-345 Phase II; January 1995
ME	Central Maine Power (II)	2001-2007	Power distribution	Price Cap Index	50-50 sharing below deadband	Docket 99-666; November 2000
ME	Central Maine Power (III)	2009-2013	Power distribution	Price Cap Index: GDPPI - 1%, separate capital cost tracker for AMI	50-50 sharing above 11% ROE	Docket 2007-215
ME	Maine Natural Gas	2010-2012	Gas	Revenue Cap Stairstep with steps conditioned on company earnings	None	Docket 2009-67
NY	Brooklyn Union Gas	October 1, 1991 - September 30, 1994	Gas	Revenue Cap Stairstep	Sharing of overearnings only without deadband	Case 90-G-0981, Opinion 91-21; October 1991
NY	Brooklyn Union Gas	October 1, 1994 - September 30, 1997	Gas	Revenue Cap Stairstep	Sharing of overearnings only without deadband and multiple sharing bands	Case 93-G-0941, Opinion 94-22; October 1994
NY	Central Hudson Gas & Electric	2010-2013	Gas & power distribution	Revenue Cap Stairstep	Sharing of overearnings with deadband and multiple sharing bands	Case 09-E-0588
NY	Central Hudson Gas & Electric	July 1, 2006 - June 30, 2009	Gas & power distribution	Price Cap Stairstep	Sharing of overearnings only with deadband, multiple sharing bands up to earnings cap	Case 05-E-0934 & Case 05-G-0935; July 2006
NY	Consolidated Edison	2010-2013	Gas	Revenue Cap Stairstep	Sharing of overearnings only with deadband that varies annually and multiple sharing bands	Case 09-G-0795
NY	Consolidated Edison	2007-2010	Gas	Revenue Cap Stairstep	Even sharing of overearnings only above deadband, sharing threshold adjustable depending on work with DSM program administrator for first year only	Case 06-G-1332
NY	Consolidated Edison	October 1, 1994 - September 30, 1997	Gas	Revenue Cap Stairstep	Even sharing of overearnings only above deadband	Case 93-G-0996, Opinion 94-2; October 1994
NY	Consolidated Edison	2010-2013	Power distribution	Revenue Cap Stairstep	Sharing of overearnings only above deadband with multiple sharing bands	Case 09-E-0428
NY	Consolidated Edison	April 1, 2005 - March 31, 2008	Power distribution	Price Cap Stairstep	Sharing of overearnings only with multiple bands. No allowed ROE approved.	Case 04-E-0572; March 2005
NY	Consolidated Edison	1992-1995	Bundled power service	Revenue Cap Stairstep	Even sharing of overearnings with varying allowed ROE and no deadband	Opinion 92-8
NY	Keyspan Energy Delivery - Long Island	2010-2012	Gas	Revenue Cap Stairstep	Sharing of overearnings only above deadband with multiple sharing bands, sharing threshold adjustable for good DSM performance	Case 06-G-1185
NY	Keyspan Energy Delivery - New York	2010-2012	Gas	Revenue Cap Stairstep	Sharing of overearnings only above deadband with multiple sharing bands, sharing threshold adjustable for good DSM performance	Case 06-G-1186
NY	Long Island Lighting Company	December 1, 1993 - November 30, 1996	Gas	Revenue Cap Stairstep	Even sharing of overearnings only with deadband	Case 93-G-002, Opinion 93-23; December 1993
NY	Long Island Lighting Company	1992-1994	Bundled power service	Revenue Cap Stairstep	Even sharing of overearnings only without deadband	Opinion 92-8

Table 7 (cont'd)

Jurisdiction	Company	Plan Term	Services Covered	Attrition Relief Mechanism	Earnings Sharing Provisions	Case Reference
<b>Historic (cont'd)</b>						
<b>United States (cont'd)</b>						
NY	New York State Electric & Gas	2010-2013	Gas & power distribution	Revenue Cap Stairstep	Sharing of overearnings only with deadband that varies annually and multiple sharing bands	Case 09-E-0715
NY	New York State Electric & Gas	August 1, 1995 - July 31, 1998, Years 2 and 3 not implemented due to restructuring	Bundled power service	Revenue Cap Stairstep	Sharing of overearnings only with annually varying deadbands	Case 94-M-0349, Opinion 95-27; September 1995
NY	New York State Electric & Gas	December 1, 1993 - August 31, 1995	Gas & bundled power service	Revenue Cap Stairstep	Even sharing of overearnings only above deadband	Case 92-G-1086, Opinion 93-22; November 1993
NY	Niagara Mohawk	July 1, 1990 - December 31, 1992	Gas & bundled power service	Revenue Cap Stairstep	Sharing of overearnings only without deadband up to earnings cap	Case 29327, Opinion 89-37; June 1991
NY	Orange & Rockland Utilities	2009-2012	Gas	Revenue Cap Stairstep	Sharing of overearnings only beyond deadband and multiple sharing bands	Case 08-G-1398
NY	Orange & Rockland Utilities	November 1, 2006 - October 31, 2009	Gas	Price Cap Stairstep	Sharing of overearnings only beyond deadband and multiple sharing bands	Case 05-G-1494; October 2006
NY	Orange & Rockland Utilities	November 1, 2003 - October 31, 2006	Gas	Price Cap Stairstep	Even sharing of overearnings only without deadband	Case 02-G-1553; October 2003
NY	Orange & Rockland Utilities	2012-2015	Power distribution	Revenue Cap Stairstep	Sharing of overearnings only with deadband and multiple bands	Case 11-E-0408
NY	Orange & Rockland Utilities	2008-2011	Power distribution	Revenue Cap Stairstep	Sharing of overearnings only above deadband with multiple sharing bands	Case 07-E-0949
NY	Orange & Rockland Utilities	1991-1993	Bundled power service	Revenue Cap Stairstep	Even sharing of overearnings above deadband	Case 89-E-175
NY	Rochester Gas & Electric	2010-2013	Gas & power distribution	Revenue Cap Stairstep	Sharing of overearnings only with deadband that varies annually and multiple sharing bands	Case 09-E-0717
NY	Rochester Gas & Electric	July 1, 1993 - June 30, 1996	Gas & bundled power service	Revenue Cap Stairstep	Earnings cap only	Case 92-G-0741, Opinion No. 93-19; August 1993
OH	AEP-Ohio	2012-2015	Power distribution	Rate Freeze supplemented by capital and other cost trackers	Company subject to Significantly Excessive Earnings Test conducted annually	Case No. 11-346-EL-SSO; August 2012
OH	Cincinnati Gas & Electric	2009-2011	Power generation	Price Cap Stairstep	Company subject to Significantly Excessive Earnings Test conducted annually	Case 08-920-EL-SSO
OR	PacifiCorp	1998-2001	Power distribution	Revenue Cap Index	Sharing of over/underearning outside deadband in multiple sharing bands	Order No. 98-191
US	All	2006-2011	Oil pipelines	Price Cap Index: PPI-Finished Goods + 1.3%	None	RM05-22-000
US	All	2001-2006	Oil pipelines	Price Cap Index: PPI-Finished Goods + 0%	None	RM00-11-000
US	All	1995-2001	Oil pipelines	Price Cap Index: PPI-Finished Goods - 1%	None	RM93-11-000
VT	Green Mountain Power	2007-2010	Bundled power service	Revenue Cap Stairstep	Earnings cap for overearnings above deadband; Multiple sharing bands for earnings apply if actual ROE below deadband (earnings floor of the deadband also applies)	Docket No. 7176
WA	Puget Sound Energy	1997-2001	Bundled power service	Price Cap Stairstep	None	Docket UE-960195
<b>Australia/New Zealand</b>						
Australia	Jemena Gas Networks	2010-2015	Gas distribution	Australia-Style Hybrid	Not reviewed	Access Arrangement Proposal for NSW Gas Networks, Final Decision; June 2010
Australia	All New South Wales distributors	2009-2014	Power distribution	Australia-Style Hybrid	Not reviewed	New South Wales Distribution Determination 2009-10 to 2013-14 Final Decision
Australia	ElectraNet	2008-2013	Power transmission	Australia-Style Hybrid	Not reviewed	Final Decision; April 2008
Australia	ElectraNet	2003-2008	Power transmission	Australia-Style Hybrid	Not reviewed	File No: C2001/1094
Australia	Powerlink	2007-2012	Power transmission	Australia-Style Hybrid	Not reviewed	Final Decision; June 2007

Table 7 (cont'd)

Jurisdiction	Company	Plan Term	Services Covered	Rate Escalation Provisions	Earnings Sharing Provisions	Case Reference
<b>Historic (cont'd)</b>						
<b>Australia/New Zealand (cont'd)</b>						
Australia	Powerlink	2002-2007	Power transmission	Australia-Style Hybrid	Not reviewed	File No: 2000/659
Australia	Snowy Mountains	1999-2004 (terminated in 2002 due to merger with Transgrid)	Electric transmission	Australia-Style Hybrid	Not reviewed	File No: C1999/62
Australia	SPI PowerNet	2003-2008	Power transmission	Australia-Style Hybrid	Not reviewed	File No: C2001/1093
Australia	Transend	2009-2014	Power transmission	Australia-Style Hybrid	Not reviewed	Transend Transmission Determination 2009/10-2013/14 (Final Decision)
Australia	Transend	2004-2009	Power transmission	Australia-Style Hybrid	Not reviewed	File No: C2001/1100
Australia	Transgrid	2009-2014	Electric transmission	Australia-Style Hybrid	Not reviewed	Transgrid Transmission Determination 2009/10-2013/14 (Final Decision)
Australia	Transgrid	2004-2009	Power transmission	Australia-Style Hybrid	Not reviewed	File No. M2003/287
Australia	Transgrid	1999-2004	Power transmission	Australia-Style Hybrid	Not reviewed	File No: CG98/118
Australia - New South Wales	Country Energy Gas	2006-2010	Gas distribution	Australia-Style Hybrid	Not reviewed	Revised Access Arrangement for Country Energy Gas Network, Final Decision; November 2005
Australia - New South Wales	AGL Gas Networks	1999-2004	Gas transmission & distribution	Australia-Style Hybrid	Not reviewed	Access Arrangement for AGL Gas Networks Limited, Final Decision; July 2000
Australia - New South Wales	All	2004-2009	Power distribution	Australia-Style Hybrid	Not reviewed	File No: S2004/138
Australia - New South Wales	All	1999-2004	Power distribution	Australia-Style Hybrid	Not reviewed	NEC Determination 99-1
Australia - Northern Territory	Power & Water	2000-2003	Power transmission & distribution	Australia-Style Hybrid	Not reviewed	Revenue Determinations document; June 2000
Australia - Northern Territory	Power & Water	2009-2014	Power transmission & distribution	Price Cap Index: CPI + 0.85%	Not reviewed	Final Determination Networks Pricing: 2009 Regulatory Reset; March 2009
Australia - Northern Territory	Power & Water	2004-2009	Power transmission & distribution	Price Cap Index: CPI - 2%	Not reviewed	Final Determination Networks Pricing: 2004 Regulatory Reset; February 2004
Australia - Victoria	All	2008-2012	Gas distribution	Australia-Style Hybrid	Not reviewed	Gas Access Arrangement Review 2008, 2012, Final Decision; March 2008
Australia - Victoria	All	2003-2007	Gas distribution	Australia-Style Hybrid	Not reviewed	Review of Gas Access Arrangements, Final Decision; October 2002
Australia - Victoria	All	2006-2010	Power distribution	Australia-Style Hybrid	Not reviewed	Electricity Distribution Price Review 2006-2010 (Final Decision Volume 1)
Australia - Victoria	All	2001-2005	Power distribution	Australia-Style Hybrid	Not reviewed	Electricity Distribution Price Determination 2001-2005 (Final Decision Volume 1)
New Zealand	All	2010-2015	Power distribution	Revenue Cap Index: CPI - 0%	None	Commerce Commission Initial Reset of the Default Price-Quality Path for Electricity Distribution Businesses Decisions Paper; November 2009

Table 7 (cont'd)

Jurisdiction	Company	Plan Term	Services Covered	Rate Escalation Provisions	Earnings Sharing Provisions	Case Reference
<b>Historic (cont'd)</b>						
<b>Australia/New Zealand (cont'd)</b>						
New Zealand	All	2004-2009	Power distribution	Revenue Cap Index: CPI - 0.86% (Average across firms)	None	Commerce Commission Regulation of Electricity Lines Businesses, Targeted Control Regime, Threshold Decisions; December 2003
<b>Canada</b>						
Alberta	Enmax	2007-2013	Power distribution	Price Cap Index: Input Price Index -1.2%	50-50 for excess earnings above deadband	Decision 2009-035
Alberta	Northwestern Utilities	1999-2002, reopened for 2001-2002	Gas distribution	Revenue Cap Stairstep; at reopener replaced with rate freeze	Sharing of earnings above/below deadband with multiple bands for overearnings; at reopener simplified to 50/50 sharing of overearnings with deadband	Decision U98060; March 1998 and Decision 2000-85; December 2000
Alberta	EPCOR	2002-2005, Terminated 12/31/2003	Power distribution	Price Cap Index	None	City of Edmonton Distribution Tariff Bylaw 12367; August 2000
Northwest Territory	Northland Utilities	2011-2013	Bundled power service	Revenue Cap Stairstep	None	Decision 17-2011; November 2011
Northwest Territory	Northland Utilities (Yellowknife)	2011-2013	Bundled power service	Revenue Cap Stairstep	None	Decision 13-2011; August 2011
Ontario	All Ontario Distributors	2010-2013	Power distribution	Price Cap Index: GDP IPI for Final Domestic Demand - (0.92% to 1.32% depending on company's annual performance in benchmarking studies)	None	EB-2007-0673; July 2008, September 2008, and January 2009
Ontario	All Ontario Distributors	2006-2009	Power distribution	Price Cap Index	None	EB-2006-0089; December 2006
Ontario	All Ontario Distributors	2000-2003	Power distribution	Price Cap Index	50-50 sharing of excess earnings without deadband	RP-1999-0034; January 2000
Ontario	Enbridge Gas Distribution	2008-2012	Gas distribution	Revenue Cap Index: GDP-IPI * 53%	50-50 sharing of excess earnings above deadband	EB-2007-0615; February 2008
Ontario	Union Gas	2008-2012	Gas distribution	Revenue Cap Index: GDP-IPI -1.82%	Sharing of overearnings only with deadband and multiple sharing bands	EB-2007-0606; January 2008
Ontario	Union Gas	2001-2003	Gas distribution	Price Cap Index	50-50 sharing around deadband	RP-1999-0017; July 2001
<b>Great Britain</b>						
Great Britain	All	2008-2013	Gas distribution	British-Style Hybrid	Not reviewed	Review- Final Proposals; Published December 2007
Great Britain	All	2002-2007, extended to 2008	Gas distribution	British-Style Hybrid	Not reviewed	"RPI - X @ 20." Ofgem Publication
Great Britain	All	2007-2012	Gas transmission	British-Style Hybrid	Not reviewed	Transmission Price Control Review; Published December 2006
Great Britain	All	2002-2007	Gas transmission	British-Style Hybrid	Not reviewed	"RPI - X @ 20." Ofgem Publication
Great Britain	All	1998-2002	Gas transmission & distribution	British-Style Hybrid	Not reviewed	Energy Law Journal Volume 23 No. 2 p.444
Great Britain	All	1994-1997	Gas transmission & distribution	British-Style Hybrid	Not reviewed	Energy Law Journal Volume 23 No. 2 p.444
Great Britain	All	1992-1994	Gas transmission & distribution	British-Style Hybrid	Not reviewed	Energy Law Journal Volume 23 No. 2 p.444
England & Wales	All	1995-2000	Power distribution	British-Style Hybrid	Not reviewed	"RPI - X @ 20." Ofgem Publication
Great Britain	All	2010-2015	Power distribution	British-Style Hybrid	Variances of cost from budgets shared through Information Quality Incentive Mechanism	Ofgem Distribution Price Control Review 5
Great Britain	All	2005-2010	Power distribution	British-Style Hybrid	Not reviewed	Ofgem Distribution Price Control Review 4

Table 7 (cont'd)

Jurisdiction	Company	Plan Term	Services Covered	Rate Escalation Provisions	Earnings Sharing Provisions	Case Reference
<b>Historic (cont'd)</b>						
<b>Great Britain (cont'd)</b>						
Great Britain	All	2000-2005	Power distribution	British-Style Hybrid	Not reviewed	"RPI - X @ 20." Ofgem Publication
England & Wales	National Grid	2001-2006, extended to 2007	Power transmission	British-Style Hybrid	Not reviewed	OECD Reviews of Regulatory Reform
England & Wales	National Grid	1997-2001	Power transmission	British-Style Hybrid	Not reviewed	"RPI - X @ 20." Ofgem Publication
England & Wales	National Grid	1993-1997	Power transmission	British-Style Hybrid	Not reviewed	Energy Law Journal Volume 23 No. 2 p.452
Great Britain	All	2007-2012	Power transmission	British-Style Hybrid	Not reviewed	Transmission Price Control Review; Published December 2006
Scotland	All	2000-2005, extended to 2007	Power transmission	British-Style Hybrid	Not reviewed	"RPI - X @ 20." Ofgem Publication
Scotland	All	1995-2000	Power transmission	British-Style Hybrid	Not reviewed	1995 Report by Monopolies and Mergers Commission

<sup>1</sup> Rate freezes without extensive supplemental funding from capital cost trackers are excluded from this table.

## VI. Formula Rates

A cost of service formula rate plan (“FRP”) is essentially a wide-scope cost tracker designed to help a utility’s revenue track its cost of service. Earnings surpluses or deficits occur when revenue and cost are not balanced. FRPs have earnings true up mechanisms that adjust rates so that earnings variances are reduced or eliminated. Regulatory cost is contained by limiting review of costs and revenues.

The earnings true up mechanism plays a key role in an FRP. Some mechanisms compare the earned ROE to the target ROE and then calculate the rate adjustment needed to reduce the ROE variance. Others adjust rates for the difference between revenue and a pro forma cost of service calculated using a rate of return target. Both approaches can keep the utility whole for the time value of money.

Earnings true up mechanisms often include a deadband in which variances don’t trigger a rate adjustment. Once the variance exceeds the deadband, however, earnings true up mechanisms in FRPs commonly move the ROE all, or almost all, of the way to its regulated target without sharing earnings variances. This is an important distinction between the earnings true up mechanism of an FRP and the earnings *sharing* mechanisms found in some multiyear rate plans.

Formula rates do not always address major plant additions. In state-regulated FRPs for retail electric services, for instance, major investment programs are generally approved separately through such means as hearings on certificates of public convenience and necessity. The resultant cost is often recovered through a separate tracker.

Mechanisms are sometimes added to an FRP to encourage better operating performance. For example, escalation of revenue that compensates the utility for its O&M expenses may be limited by a formula tied to an inflation index. FRPs in several states that include Illinois and Mississippi contain a number of targeted performance incentive mechanisms.

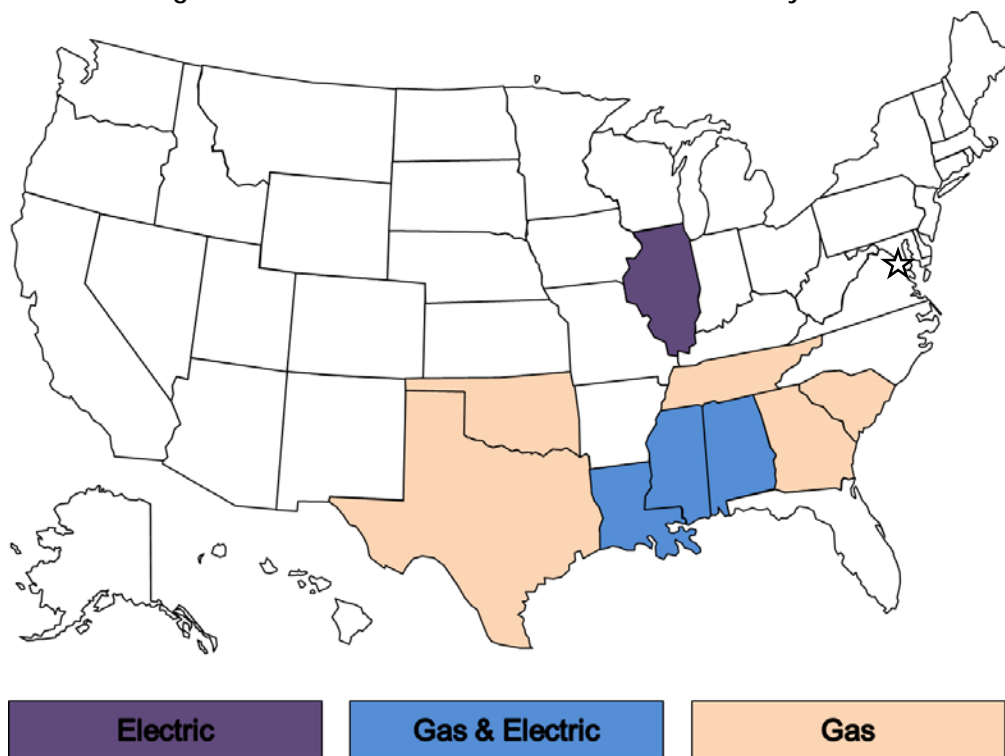
Formula rates have been used at the FERC and its predecessor agency to regulate interstate services of energy utilities for decades. Use of FRPs by the FERC was encouraged in the 1970s and early 1980s by rapid price inflation. Despite slower inflation in recent years, the FERC has made extensive use of formula rates for power transmission in an effort to simplify its daunting regulatory task and facilitate urgently needed investments.

Precedents for retail formula rates, which recover costs of generation and/or distribution, are listed in Table 8 and Figure 9.<sup>10</sup> It can be seen that FRPs for retail utility services are most common in the Southeast and South Central states. Alabama was an early innovator, approving “Rate Stabilization and Equalization”

<sup>10</sup> Some plans labeled as formula rates do not qualify for inclusion in this table and figure based on our definition. These usually take the form of ESMs that may or may not protect the utility from underearning.

plans for Alabama Power and Alabama Gas in the early 1980s.<sup>11</sup> Formula rates are now used to regulate electric utilities in Illinois, some gas and electric utilities in Louisiana and Mississippi, and some gas utilities in Georgia, Oklahoma, South Carolina, Tennessee, and Texas. Most of the recent approvals of formula rates have been for gas distribution, as this is one means to avoid the frequent rate cases that declining average use can trigger. However, formula rates were recently authorized legislatively for electric utilities in Arkansas.

Figure 9: Current Retail Formula Rate Precedents by State



<sup>11</sup> For further discussion of the Alabama FRP experience see Edison Electric Institute, *Case Study of Alabama Rate Stabilization and Equalization Mechanism*, June 2011.

Table 8

# Retail Formula Rate Plan Precedents<sup>1</sup>

Jurisdiction	Company Name	Services	Plan Name	Plan Term	Case Reference
<b>Current</b>					
AL	Alabama Power	Bundled Power Service	Rate Stabilization & Equalization Factor (Rate RSE)	2013-open	Dockets 18117 and 18416 (August 2013)
AL	Alabama Gas	Gas	Rate Stabilization & Equalization Factor (Rate RSE)	2014-2018	Dockets 18406 and 18328 (December 2013)
AL	Mobile Gas Service	Gas	Rate Stabilization & Equalization Factor (Rate RSE)	2013-2017	Docket 28101 (August 2013)
GA	Atmos Energy	Gas	Georgia Rate Adjustment Mechanism (GRAM)	2012-open	Docket 34764 (December 2011)
IL	Ameren Illinois	Power Distribution	Rate Modernization Action Plan - Pricing (Rate MAP-P)	2011-2017, extended through 2019	Case 12-0001 (September 2012) and Public Act 098-1175
IL	Commonwealth Edison	Power Distribution	Rate Delivery Service Pricing and Performance (Rate DSPP)	2011-2017, extended through 2019	Case 11-0721 (May 2012) and Public Act 098-1175
LA	Atmos Energy - Louisiana Gas Service	Gas	Rate Stabilization Clause	2014-open	Docket U-32987 (June 2014)
LA	Atmos Energy - Trans Louisiana Gas	Gas	Rate Stabilization Clause	2014-open	Docket U-32987 (June 2014)
LA	Southwestern Electric Power	Electric	Formula Rate Plan	2013-2016	Docket U-32220 (July 2014)
MS	Atmos Energy Corp	Gas	Stable/Rate Rider	2011-present	Docket 05-UN-0503 (April 2011)
MS	Centerpoint Energy	Gas	Rate Regulation Adjustment Rider	2014-open	Docket 2014-UN-060 (May 2014)
MS	Entergy Mississippi	Bundled Power Service	Formula Rate Plan 6 (FRP-6)	2015-open	Docket 2014-UN-132 (December 2014)
MS	Mississippi Power	Bundled Power Service	Performance Evaluation Plan - 5 (PEP-5)	2010-open	Docket 2003-UN-0898 (November 2009)
OK	Centerpoint Energy Arkla	Gas	Performance Based Rate of Change Plan	2010-open	Cause PUD 201000030 (July 2010)
OK	Arkansas Oklahoma Gas	Gas	Performance Based Rate of Change Plan	2013-open	Cause PUD 201200236 (July 2013)
SC	Piedmont Gas	Gas	NA	2005-open	Docket 2005-125-G (September 2005)
SC	South Carolina Electric and Gas	Gas	NA	2005-open	Docket 2005-113-G (October 2005)
TN	Atmos Energy	Gas	Annual Review Mechanism	2015-open	Docket 14-00146 (May 2015)
TX	Centerpoint Energy-Texas Coast Division	Gas	Cost of Service Adjustment Clause	2008-open	Gas Utility Docket 9791 (October 2008)
TX	Atmos Energy-Mid Texas Division	Gas	Rate Review Mechanism	2013-2017	Various Resolutions/Ordinances across cities in service territory, including City of Fort Worth Ordinance 17989-02-2007
TX	Atmos Energy West Texas Division	Gas	Rate Review Mechanism	2014-open	Various Resolutions/Ordinances across cities in service territory including City of Tulia Ordinance 2014-03
TX	Texas Gas Service - Rio Grande Service Area	Gas	Cost of Service Adjustment	2012-open	Various Resolutions/Ordinances across cities in service territory
TX	Texas Gas Service - North Service Area	Gas	Cost of Service Adjustment Tariff	2009-open	Various Resolutions/Ordinances in service territory and Gas Utility Docket 9839 (April 2009)



Table 8 (cont'd)

Jurisdiction	Company Name	Services	Plan Name	Plan Term	Case Reference
<b>Historic</b>					
AL	Alabama Power	Bundled Power Service	Rate Stabilization & Equalization Factor (Rate RSE)	2006-2013	Dockets 18117 and 18416 (October 2005)
AL	Alabama Power	Bundled Power Service	Rate Stabilization & Equalization Factor (Rate RSE)	2002-2006	Dockets 18117 and 18416 (March 2002)
AL	Alabama Power	Bundled Power Service	Rate Stabilization & Equalization Factor (Rate RSE)	1998-2002	Dockets 18117 and 18416 (March 1998)
AL	Alabama Power	Bundled Power Service	Rate Stabilization & Equalization Factor (Rate RSE)	1990-1998	Dockets 18117 and 18416 (March 1990)
AL	Alabama Power	Bundled Power Service	Rate Stabilization & Equalization Factor (Rate RSE)	1985-1990	Dockets 18117 and 18416 (June 1985)
AL	Alabama Power	Bundled Power Service	Rate Stabilization & Equalization Factor (Rate RSE)	1982-1985	Dockets 18117 and 18416 (November 1982)
AL	Alabama Gas	Gas	Rate Stabilization & Equalization Factor (Rate RSE)	2008-2014, later changed to 2013	Dockets 18406 and 18328 (December 2007)
AL	Alabama Gas	Gas	Rate Stabilization & Equalization Factor (Rate RSE)	2002-2007	Dockets 18046 and 18328 (June 2002)
AL	Alabama Gas	Gas	Rate Stabilization & Equalization Factor (Rate RSE)	1996-2001	Dockets 18046 and 18328 (October 1996)
AL	Alabama Gas	Gas	Rate Stabilization & Equalization Factor (Rate RSE)	1991-1995	Dockets 18046 and 18328 (December 1990)
AL	Alabama Gas	Gas	Rate Stabilization & Equalization Factor (Rate RSE)	1987-1990	Dockets 18046 and 18328 (September 1987)
AL	Alabama Gas	Gas	Rate Stabilization & Equalization Factor (Rate RSE)	1985-1987	Dockets 18046 and 18328 (May 1985)
AL	Alabama Gas	Gas	Rate Stabilization & Equalization Factor (Rate RSE)	1983-1985	Dockets 18046 and 18328 (January 1983)
AL	Mobile Gas Service	Gas	Rate Stabilization & Equalization Factor (Rate RSE)	2009-2013	Docket 28101 (December 2009)
AL	Mobile Gas Service	Gas	Rate Stabilization & Equalization Factor (Rate RSE)	2005-2009	Docket 28101 (June 2005)
AL	Mobile Gas Service	Gas	Rate Stabilization & Equalization Factor (Rate RSE)	2001-2005	Docket 28101 (June 2002)
LA	Atmos Energy - Louisiana Gas Service	Gas	Rate Stabilization Plan	2006-2014	Docket U-21484 (May 2006)
LA	Atmos Energy - Louisiana Gas Service	Gas	Rate Stabilization Plan	2001-2003	Docket U-21484 (January 2001)
LA	Atmos Energy - Trans Louisiana Gas	Gas	Rate Stabilization Plan	2006-2014	Dockets U-28814 and U-28588 and U-28587 (May 2006)
LA	Entergy New Orleans	Electric and Gas	Formula Rate Plan	2010-2012	Docket UD-08-03 (April 2009)
LA	Entergy New Orleans	Electric only	Formula Rate Plan	2004-2006	Docket UD-01-04 (May 2003)
MS	Atmos Energy Corp	Gas	Stable/Rate Rider	2009-2011	Docket 05-UN-0503 (December 2009)
MS	Atmos Energy Corp	Gas	Stable/Rate Rider	2006-2009	Docket 05-UN-0503 (October 2005)
MS	Atmos Energy Corp	Gas	Stable/Rate Rider	1992-2006	Docket 92-UA-0230 (September 1992)
MS	Centerpoint Energy	Gas	Rate Regulation Adjustment Rider	2012-2014	Docket 12-UN-139 (May 2012)

Table 8 (cont'd)

Jurisdiction	Company Name	Services	Plan Name	Plan Term	Case Reference
<b>Historic (cont'd)</b>					
MS	Centerpoint Energy Entex	Gas	Rate Regulation Adjustment Rider	2008-2012	Docket 07-UN-548 (December 2007)
MS	Centerpoint Energy Entex	Gas	Rate Regulation Adjustment Rider	1996-2007	Docket 96-UN-0202 (September 1996)
MS	Entergy Mississippi	Bundled Power Service	Formula Rate Plan 5 (FRP-5)	2010-2014	Docket 2009-UN-388 (March 2010)
MS	Entergy Mississippi	Bundled Power Service	Formula Rate Plan 1 (FRP-1)	1995	Docket 93-UA-0301 (March 1994)
MS	Mississippi Power	Bundled Power Service	Performance Evaluation Plan - 4A (PEP- 4A)	2009	Docket 06-UN-0511 (January 2009)
MS	Mississippi Power	Bundled Power Service	Performance Evaluation Plan - 4 (PEP-4)	2004-2009	Docket 03-UN-0898 (May 2004)
MS	Mississippi Power	Bundled Power Service	Performance Evaluation Plan - 3 (PEP-3)	2002-2004	Docket 01-UN-0826 (October 2002)
MS	Mississippi Power	Bundled Power Service	Performance Evaluation Plan - 2A (PEP-2A)	2001-2002	Docket 01-UN-0548 (December 2001)
MS	Mississippi Power	Bundled Power Service	Performance Evaluation Plan - 1A (PEP-1A)	1992-1993	Docket 92-UN-0059 (July 1992)
MS	Mississippi Power	Bundled Power Service	Performance Evaluation Plan - 1 (PEP-1)	1991-1992	Docket 90-UN-0287 (December 1990)
MS	Mississippi Power	Bundled Power Service	Performance Evaluation Plan	1986-1990	Cause PUD U-4761 (August 1986)
OK	Centerpoint Energy Arkla	Gas	Performance Based Rate of Change Plan	2008-2010	Cause PUD 200800062 (July 2008)
OK	Centerpoint Energy Arkla	Gas	Performance Based Rate of Change Plan	2004-2008	Cause PUD 200400187 (November 2004)
OK	Oklahoma Natural Gas	Gas	Performance Based Rate of Change Plan	2010-2014	Docket 200800348 (April 2009)
TX	Atmos Energy-Mid Texas Division	Gas	Rate Review Mechanism	2008 - varying end dates	Various Resolutions/Ordinances across cities in service territory, including City of Fort Worth Ordinance 17989-02-2008
TX	Atmos Energy West Texas Division	Gas	Rate Review Mechanism	2009 - conclusion of rate case to be filed on or before June 1, 2013	Various Resolutions/Ordinances across cities in service territory
TX	Centerpoint Energy - Beaumont East Texas Gas Division	Gas	Cost of Service Adjustment	2009-2011	Various Resolutions/Ordinances across cities in service territory
TX	Texas Gas Service - Rio Grande Service Area	Gas	Cost of Service Adjustment	2009-2011	Various Resolutions/Ordinances across cities in service territory

<sup>1</sup> Table excludes some mechanisms that do not conform to our FRP definition. Some of these are called formula rate plans.

## VII. Marketing Flexibility

This is a new section, added since the last survey. We've added it because we (and EEI) believe that marketing flexibility is a growing, strategic issue for EEI members. Several trends in business conditions are driving the need for more flexibility. The growth of distributed energy resources, for example, is a competitive challenge but also brings new service opportunities related to the development of distributed energy assets (e.g., designing, financing, procuring, building, fueling, and maintaining). Grid modernization is providing new functional capabilities to the grid which also create new service opportunities.<sup>12</sup> Examples include new reliability, network management, and transaction management services. Residential and commercial customers also have a growing interest in plug-in electric vehicles, and all retail customers have shown an interest in green power packages that can be supplied from grid-accessed resources.

New services will tend to be optional services that all customers will not want. Customers must be able to decline them; and if they do, not to incur associated costs. Competitive alternatives will be available for many of these services, and customers may have special needs that are difficult to address with standard tariffs. Thus, utilities will need to be able to respond quickly to the market. They will often be price "takers," as opposed to price "makers."

To date, regulatory precedent allowing investor-owned electric utilities to offer many of these services has been limited. This chapter is, in effect, a place holder for expected future electricity precedent.

### Why Electric Utilities Need Marketing Flexibility

Of course, electric utilities have always needed flexibility in some of the markets they serve:

- Utility assets have uses in markets other than those for retail electric services. Most notably, surplus generating capacity of VIEUs can be used for sales in bulk power markets. These markets are competitive and price-volatile. Land in transmission corridors can be well-suited for nurseries. Prices utilities charge in competitive markets like these are largely decontrolled. Margins earned in these markets are shared with customers of retail electric services.
- The demand of large-load retail customers is often sensitive to the rates and other terms of service utilities offer because these customers have power-intensive technologies and/or options to cost-competitively cogenerate or operate at alternative locations, or are economically marginal. Customers of this kind are especially important to vertically integrated utilities. Discounts or special contracts for such customers are traditionally allowed but often require specific approval. Commission reviews of special contracts can take months.

<sup>12</sup> For an overview of modernization, see: EPRI, *The Integrated Grid: Realizing the Full Value of Central and Distributed Energy Resources*, 2014.

## Marketing Flexibility Remedies

Marketing flexibility runs the gamut from greater commission effort to approve new rates and services by traditional means to “light handed” regulation and outright decontrol. Light handed regulation typically takes the form of expedited approval of market offerings. These offerings may be subject to further scrutiny at a later date (e.g., in the next rate case).

Flexibility is most commonly granted for rates and services with certain characteristics. Light handed regulation of optional rates and services, for example, is based on the grounds that customers are protected by their freedom not to take the service, their continued access to service under standard tariffs, and the availability of alternatives in unregulated markets. Optional offerings include tariffs open to all qualifying customers, special contracts, and discretionary value-added services. Decontrol is typically permitted only for offerings to markets where vigorous competition reigns.

## Marketing Flexibility Examples: Electric Utilities

Marketing flexibility is not extensive in the electric utility industry today but there are nonetheless notable examples such as the following.

- Four Florida electric utilities have “Commercial/Industrial Service Rider” (“CISR”) tariffs that allow them to negotiate contract service agreements (“CSAs”) that outline discounts on the base energy and/or demand charges for large load customers who can show that they have viable alternatives to utility-provided electric service.<sup>13</sup> The discounted rate must cover the incremental cost of service provision and provide a contribution to fixed costs. CSAs do not need commission approval but the commission has the option to conduct a prudence review of any signed contract.
- Duke Energy offers large North Carolina customers an optional Green Source Rider service. The program allows customers that have added at least 1 MW of new load since June 2012 to apply for an annual amount of renewable energy (and the associated renewable energy certificates) over a specific term (between 3-15 years). Customers may request a particular renewable resource in their application. Duke would then negotiate a purchased power agreement on behalf of the customer or attempt to source the energy from its own assets.

<sup>13</sup> Florida Public Service Commission (2014), Order Approving Commercial/Industrial Service Rider Tariff, Order No. PSC-14-0110-TRF-EI.

## Marketing Flexibility in Other Regulated Industries

Regulators and electric utilities considering new forms of marketing flexibility can learn from other utility industries that have experienced technological change, increased competition, and/or complex and changing customer needs. We provide here brief overviews of experience in the telecommunications, gas distribution, gas transmission, and railroad industries.

### Telecommunications

Local telephone companies (aka incumbent local exchange carriers or "ILECs") control the traditional distribution networks connecting residences and businesses. The "last mile" services they provide include the interconnection needed for long-distance, data, security, paging, and mobile telephone services as well as local telephone calling. ILECs have in the last 30 years confronted extensive competition, rapid technological change, and new marketing opportunities. Challenges they have faced have many parallels to those emerging for electric utilities.

The Federal Communications Commission ("FCC") regulates interstate access services of ILECs. Other ILEC services are regulated by state commissions. In the 1980s, ILECs were still regulated using cost-of-service regulation with complex reporting and compensation schemes. This was succeeded by multiyear rate plans, often called "price cap" plans since they capped rate escalation but permitted some discounts to encourage greater system use. Price caps were often escalated using inflation – X formulas where the X factor reflected an estimate of the telecommunication industry productivity trend. Prices were separately capped for several baskets of services. This insulated customers in each service basket from discounts offered to other baskets. Insulation was heightened by the infrequency (or elimination) of rate cases and the common lack of earnings sharing. The FCC instituted price caps for interstate access services of ILECs in the early 1990s. Price caps also became commonplace in state ILEC regulation.

Marketing flexibility for ILECs has been most relevant in the following two areas.

Competition in Traditional Service Markets Some services ILECs offered became subject to mounting competitive pressure that varied with the location where service was offered. For example, by the late 1990s, competitive access providers like MFS were constructing high-speed fiber optic networks connecting office buildings in metropolitan areas. These networks allowed businesses and long-distance carriers to connect to customers while bypassing ILEC data facilities. They could also be used to transmit voice traffic, avoiding ILEC voice access charges. High regulated prices were uncompetitive in high-traffic locations where facilities-based competitors entered the market. For services subject to competitive challenges, price cap plans in many states permitted discounts to standard tariffs within certain bands (e.g., rates could rise by 5% less than the price cap index) and/or subject to pricing floors that discouraged predation and cross-subsidization. In markets where pronounced competition could be demonstrated, ILEC rates were sometimes effectively decontrolled.

Innovative Services Technological change gave rise to innovative new services [e.g., Voicemail, Centrex and high-speed data (e.g., digital subscriber loop or "DSL")] which utilize essential network assets of ILECs

and cannot not practically be performed by affiliates.<sup>14</sup> Many of these services were deemed “information” services and were regulated by the FCC. Regulators ultimately permitted ILECs to provide a host of these services and allowed considerable pricing flexibility.

### Gas Distribution

Natural gas distributors also need flexibility to address some markets that they serve. Like VIEUs, many large-load customers of gas distributors have price sensitive demands and special needs. Distributors have frequently obtained light handed regulation to respond to these challenges. Nicor Gas, for example, offers a contract service for customers taking delivery near interstate gas pipelines. Contracts are submitted to state regulators for informational purposes and are treated on a proprietary basis. Nicor has similar flexibility to enter into custom contracts with electric power generators. The Company must document to the regulator that revenues from such service exceed the incremental cost of service, thereby ensuring a positive contribution to fixed cost recovery.

### Interstate Gas Transmission

Interstate pipeline companies need marketing flexibility for many reasons. Demand for a pipeline’s services can be sensitive to the terms it offers due to competition from other pipelines, dual-fuel capabilities of large volume customers, the extreme variability of need for service, and other special needs. It is difficult to design standard tariffs that meet the needs of all customers. Pipelines also have their own needs, such as an interest in signing anchor shippers to long-term contracts before constructing new facilities. Since 1996, the FERC has engaged in light handed regulation of negotiated pipeline rates to individual customers who have recourse to service under a standard tariff. The FERC gives a quick turnaround to most requests for negotiated contracts. A sizable share of pipeline service is conducted under negotiated rates. A remarkable variety of rate designs have been employed.<sup>15</sup>

### Railroads

In the railroad industry, MRPs were permitted under the terms of the Staggers Railroad Act of 1980. Railroads were given a freer hand to respond to competition from truckers, waterborne carriers, and other railroads. The railroads also used marketing flexibility to offer discounts to customers that reduced their cost by assembling their own unit trains and not requesting pickups or deliveries in remote locations.

MRPs are less common today in the railroad and telecom industries. However, marketing flexibility continues under new regulatory systems that share with MRPs the attribute of protecting core customers without linking a carrier’s rates closely to its own cost. Railroads have recently used this flexibility to compete for traffic from new oil field developments.

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<sup>14</sup> Centrex service, which provided businesses features like call-waiting, auto attendant, voicemail, 4-digit extension dialing and conference calling, could also be sourced by purchasing or leasing a private branch exchange ("PBX"), a private network platform that enabled these features.

<sup>15</sup> See, for example, Comments of the Interstate Natural Gas Association of America in FERC Docket PLO2-6-000, September 2002.

## VIII. Conclusions

Regulation of North American energy utilities is evolving to better meet the needs of utilities and their customers in a rapidly changing world. Innovation continues, while some older forms of Altreg such as multiyear rate plans are having a renaissance.

The variety of Altreg approaches that have been established reflects the varied circumstances of utilities. Some are vertically integrated, while others are more specialized wire companies. Capex needs and trends in average use vary greatly. Regulatory traditions also vary across the US and other advanced industrial countries.

No single Altreg approach is right for every situation. The availability of multiple remedies for the underlying challenges increases the chance that an approach has already been tried that would work well, with some adjustments, in new situations. Numerous precedents for an approach should raise confidence that it makes good sense under fairly common circumstances.

Taken together, the many innovations described in this survey can encourage utilities to achieve compensatory rates of return while making needed investments, improving efficiency, and developing more market-responsive rates and services. Regulation can be streamlined, and utilities can be encouraged to embrace cost-effective DERs. Regulators and stakeholders to regulation across the US should give priority attention to these options and consider which kinds of Altreg might work best in their situation.

# MOODY'S

## INVESTORS SERVICE

### Credit Opinion: **Louisville Gas & Electric Company**

Global Credit Research - 11 Dec 2015

*Louisville, Kentucky, United States*

#### Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	A3
First Mortgage Bonds	A1
Sr Unsec Bank Credit Facility	A3
Commercial Paper	P-2
<b>Ult Parent: PPL Corporation</b>	
Outlook	Stable
Issuer Rating	Baa2
<b>Parent: LG&amp;E and KU Energy LLC</b>	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured	Baa1

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#### Opinion

##### Rating Drivers

- Supportive regulatory environment
- Large capital expenditure program
- High coal concentration
- Strong and stable financial metrics

##### Corporate Profile

Louisville Gas and Electric Company (LG&E: A3 stable) is a regulated public utility engaged in the generation, transmission and distribution of electricity and the storage, distribution and sale of natural gas. It provides electricity to approximately 400,000 customers in Louisville and adjacent areas and delivers natural gas service to approximately 321,000 customers in its electric service area and eight additional counties in Kentucky. LG&E's service area covers approximately 700 square miles.

LG&E is a wholly-owned subsidiary of LG&E and KU Energy LLC (LKE: Baa1 stable). LG&E and its affiliate, Kentucky Utilities (KU: A3 stable), are the two main operating entities of LKE. LKE, in turn, is wholly owned by PPL Corporation (PPL: Baa2 stable), a diversified energy holding company headquartered in Allentown, PA.

##### SUMMARY RATING RATIONALE

LG&E's A3 Issuer Rating reflects its sound financial performance and the credit supportive regulatory environment in which it operates, offset in part by a large capital expenditure program and, to a lesser extent, a lack of fuel and



geographic diversity.

## DETAILED RATING CONSIDERATIONS

### SUPPORTIVE REGULATION PROVIDES FOR TIMELY COST RECOVERY

We consider the Kentucky Public Service Commission (KPSC) to be supportive of long term credit quality and note that it has approved various tracker mechanisms that provide for timely cost recovery outside of a rate case. LG&E's tracker mechanisms include a Fuel Adjustment Clause (FAC), an Environmental Cost Recovery Surcharge (ECR), a Gas Supply Clause (GSC), a Gas Line Tracker (GLT) and a Demand-Side Management Cost Recovery Mechanism (DSM). LG&E does not have a decoupling mechanism in place, which subjects LG&E's net revenue to weather volatilities. The lack of a decoupling mechanism is less of an issue for non-weather related demand fluctuations because LG&E has the DSM and expects to have modest load growth in 2016.

Due to the high level of planned capital expenditures, LG&E and KU filed a rate case in November of 2014, requesting increases in annual base electricity rates of approximately \$30 million at LG&E and approximately \$153 million at KU and an increase in annual base gas rates of approximately \$14 million at LG&E. The rate settlement agreement of LG&E and KU was approved by the KPSC on June 30, 2015. It provided an annual revenue increase for KU's electricity rates of \$125 million, as expected, confirming the regulatory credit supportiveness. Although it didn't specify an ROE with respect to the base rates, it authorized a 10% return on equity in Environmental Cost Recovery (ECR) and Gas Line Tracker (GLT). The settlement agreement also provides for deferred cost recovery of a portion of the costs related to pensions and KU's Green River (retired September 30, 2015). The settlement agreement provided no revenue increase for LG&E' electric operations and a \$7 million increase in LG&E' gas operations.

### LARGE PLANNED CAPITAL EXPENDITURES

Capital expenditures for LG&E are expected to remain at elevated levels from 2015-2019. Total capital expenditures are expected to be \$2.7 billion, with \$1.1 billion related to environmental. The total estimated amount represents about 57% of the company's net book value of property, plant and equipment, which stood at about \$4.7 billion at the end of the third quarter 2015.

The disallowance risk associated with large capital expenditures is meaningfully moderated by Kentucky's supportive regulatory environment especially regarding the environmental expenditures through the ECR. KPSC is also authorized to grant return on construction work in progress (CWIP) in rate case proceedings. Moreover, the ECR virtually eliminates regulatory lag for investments associated with complying with the Clean Air Act and coal combustion waste and byproduct environmental requirements. The terms of the ECR allows LG&E to receive the return of and a return on the investment starting two months after making the investment. This is highly favorable compared to the traditional process where regulatory lag could last a few years due to the length of the construction period plus the rate case proceeding.

### HIGH COAL CONCENTRATION

LG&E's current fuel mix is heavily biased towards coal. Of its 2.9 GW of generating capacity, 2.0 GW (69%) is coal-fired which provides almost all (95%) of its electricity generation. The remaining 31% of the generating capacity is comprised mainly of gas- or oil- fired facilities. The fuel concentration, though a credit negative, is acceptable for its rating levels because Kentucky is very supportive of the coal industry. Kentucky is one of the leading coal producing states and the coal industry is very important to the local economy. This support is evidenced by the passage of the ECR, which provides the company with highly favorable terms for its investments in coal-related environmental expenditures.

LG&E's fuel concentration mix recently began to improve. In June 2015, the 640-MW gas-fired combined generating unit Cane Run 7 started commercial operations. Cane Run replaces some of the older coal plants totaling 234 MW at Tyrone (retired in 2013) and Green River (retired on September 30, 2015), as well as the 563 MW retirement of Cane Run coal plant in 2015. KU and LG&E had also planned to build a 700-MW gas-fired combined-cycle plant at KU's Green River generating site but the companies withdrew that proposal in August 2014 as a result of municipal contract terminations at KU.

### HEALTHY FINANCIAL PROFILE

LG&E's financial metrics have been strong for its rating. As of September 30, 2015, the ratio of consolidated cash flow before changes in working capital (CFO pre W/C) to debt was 26.6% for the last twelve months and averaged

27.7% for the past three years. Debt to capitalization was 38.9% for the last twelve months and averaged 36.5% for the past three years. LG&E's financial metrics may decline somewhat over the next few years due to the expiration of bonus depreciation in 2014 and the large capital expenditure program. However, we expect LG&E's financial metrics to remain supportive of its rating levels based on the company's targeted capital structure of 52% equity, which is calculated net of goodwill and fully loaded with rating agency adjustments. LG&E's goodwill amounted to \$389 million at the end of September 2015 and in comparison total equity, including the goodwill, was \$2,259 million.

### Liquidity Profile

LG&E has adequate liquidity. As of September 30, 2015, after accounting for all commercial paper and letter of credits issued, LG&E had all its \$500 million revolving facility available. For the past twelve months ending September 2015, LG&E had a negative free cash flow of \$350 million which is likely to be more sizeable in the coming years given its large capital expenditure program. LG&E's has debt maturities for \$25 million in 2016.

LKE manages the liquidity of its Kentucky utility operations on a consolidated basis. LG&E has a \$500 million stand-alone revolving credit facility and KU, its sister affiliate, has a \$400 million stand-alone credit facility. Both facilities expire in July 2019. LG&E's parent company also has a \$75 million syndicated credit facility that expires in October 2018. Each facility contains a financial covenant requiring the companies' debt to total capitalization not to exceed 70%. All entities were in compliance as of September 30, 2015.

### Rating Outlook

LG&E's stable outlook reflects its supportive regulatory environment and solid financial performance. LG&E's stable outlook incorporates an expectation of 20%-26% CFO pre-WC to debt and 15-21% RCF to debt.

### What Could Change the Rating - Up

The potential for upgrade is constrained by the large upcoming capital expenditure program. However, ratings could be upgraded if the company received more favorable regulatory recovery mechanisms for non-environmental related capital expenditures and maintained its CFO Pre WC/debt ratios at 26% or above.

### What Could Change the Rating - Down

LG&E's ratings could be downgraded should the company experience an unfavorable rate case outcome or if unanticipated changes were made to the regulatory compact that currently provides for timely recovery of costs and this were to lead to the company's ratios of CFO pre-WC to debt and retained cash flow to debt dropping below 20% and 15%, respectively for an extended period of time.

## Rating Factors

### Louisville Gas & Electric Company

Regulated Electric and Gas Utilities Industry Grid [1][2]	Current LTM 9/30/2015		[3]Moody's 12-18 Month Forward ViewAs of 12/8/2015	
	Measure	Score	Measure	Score
<b>Factor 1 : Regulatory Framework (25%)</b>				
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
<b>Factor 2 : Ability to Recover Costs and Earn Returns (25%)</b>				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	A	A	A	A
<b>Factor 3 : Diversification (10%)</b>				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	Baa	Baa	Baa	Baa
<b>Factor 4 : Financial Strength (40%)</b>				

a) CFO pre-WC + Interest / Interest (3 Year Avg)	10.5x	Aaa	5x - 7x	Aa
b) CFO pre-WC / Debt (3 Year Avg)	27.7%	A	20% - 26%	A
c) CFO pre-WC - Dividends / Debt (3 Year Avg)	21.0%	A	15% - 21%	A
d) Debt / Capitalization (3 Year Avg)	36.5%	A	34% - 40%	A
<b>Rating:</b>				
Grid-Indicated Rating Before Notching Adjustment		A2		A2
HoldCo Structural Subordination Notching		-		-
a) Indicated Rating from Grid		A2		A2
b) Actual Rating Assigned		A3		A3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 9/30/2015(L); Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on <http://www.moody's.com> for the most updated credit rating action information and rating history.



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# MOODY'S

## INVESTORS SERVICE

### Credit Opinion: **Kentucky Utilities Co.**

Global Credit Research - 11 Dec 2015

*Lexington, Kentucky, United States*

#### Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	A3
First Mortgage Bonds	A1
Sr Unsec Bank Credit Facility	A3
Commercial Paper	P-2
<b>Ult Parent: PPL Corporation</b>	
Outlook	Stable
Issuer Rating	Baa2
<b>Parent: LG&amp;E and KU Energy LLC</b>	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured	Baa1

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#### Opinion

##### Rating Drivers

- Supportive regulatory environment
- Large capital expenditure program
- High coal concentration
- Strong and stable financial metrics

##### Corporate Profile

Kentucky Utilities (KU: A3 stable) is a regulated public utility engaged in the generation, transmission and distribution of electricity. KU provides electric service to approximately 515,000 customers in Kentucky and 28,000 customers in Virginia. Its service territory covers approximately 4,800 square miles.

KU is a wholly-owned subsidiary of LG&E and KU Energy LLC (LKE: Baa1 stable). KU and its affiliate, Louisville Gas and Electric Company (LG&E: A3 stable), are the two main operating entities of LKE. LKE, in turn, is wholly owned by PPL Corporation (PPL: Baa2 stable), a diversified energy holding company headquartered in Allentown, PA.

##### SUMMARY RATING RATIONALE

KU's A3 issuer rating reflects its sound financial performance and the credit supportive regulatory environment in which it operates, **offset in part by a large capital expenditure program and, to a lesser extent, a lack of fuel and geographic diversity.**

## DETAILED RATING CONSIDERATIONS

### SUPPORTIVE REGULATION PROVIDES FOR TIMELY COST RECOVERY

We consider the Kentucky Public Service Commission (KPSC) to be supportive of long term credit quality and note that it has approved various tracker mechanisms that provide for timely cost recovery outside of a rate case. KU's tracker mechanisms include a Fuel Adjustment Clause (FAC), an Environmental Cost Recovery Surcharge (ECR) and a Demand-Side Management Cost Recovery Mechanism (DSM). **KU does not have a decoupling mechanism in place, which subjects KU's net revenue to weather volatilities.** The lack of a decoupling mechanism is less of an issue for non-weather related demand fluctuations because KU has the DSM and expects to have modest load growth in 2016.

Due to the high level of planned capital expenditures, LG&E and KU filed a rate case in November of 2014, requesting increases in annual base electricity rates of approximately \$30 million at LG&E and approximately \$153 million at KU along with an increase in annual base gas rates of approximately \$14 million at LG&E. The rate settlement agreement of LG&E and KU was approved by the KPSC on June 30, 2015. It provided an annual revenue increase for KU's electricity rates of \$125 million, as expected, confirming the regulatory credit supportiveness. Although it didn't specify an ROE with respect to the base rates, it authorized a 10% return on equity in Environmental Cost Recovery (ECR). The settlement agreement also provides for deferred cost recovery of a portion of the costs related to pensions and KU's Green River (retired September 30, 2015). The settlement agreement provided no revenue increase for LG&E' electric operations and a \$7 million increase in LG&E' gas operations.

### LARGE PLANNED CAPITAL EXPENDITURES

**Capital expenditures for KU are expected to remain at elevated levels from 2015-2019. Total capital expenditures are expected to be \$2.8 billion, with \$1.1 billion related to environmental. The total estimated amount represents about 42% of its net book value of property, plant and equipment, which stood at about \$6.6 billion at the end of the third quarter 2015.**

The disallowance risk associated with large capital expenditures is meaningfully moderated by Kentucky's supportive regulatory environment especially regarding the environmental expenditures through the ECR. KPSC is also authorized to grant return on construction work in progress (CWIP) in rate case proceedings. Moreover, the ECR virtually eliminates regulatory lag for investments associated with complying with the Clean Air Act and coal combustion waste and byproduct environmental requirements. The terms of the ECR allows KU to receive the return of and a return on the investment starting two months after making the investment. This is highly favorable compared to the traditional process where regulatory lag could last a few years due to the length of the construction period plus the rate case proceeding.

### HIGH COAL CONCENTRATION

KU's current fuel mix is heavily biased towards coal. Of its 5.0 GW of generating capacity, 3.0 GW (60%) is coal-fired which provides almost all (95%) of the electricity generation. The remaining 40% of the generating capacity is comprised mainly of gas- or oil- fired facilities.

The fuel concentration, though a credit negative, is acceptable for its rating levels because Kentucky is very supportive of the coal industry. Kentucky is one of the leading coal producing states and the coal industry is very important to the local economy. This support is evidenced by the passage of the ECR, which provides the company with highly favorable terms for its investments in coal-related environmental expenditures.

KU's fuel concentration mix recently began to improve. In June 2015, the 640-MW gas-fired combined generating unit Cane Run 7 started commercial operations Cane Run replaces some of the older coal plants totaling 234 MW at Tyrone (retired in 2013) and Green River (retired on September 30, 2015), as well as the 563 MW retirement of Cane Run coal plant in 2015. KU and LG&E had also planned to build a 700-MW gas-fired combined-cycle plant at KU's Green River generating site but the companies withdrew that proposal in August 2014 as a result of municipal contract terminations at KU.

### HEALTHY FINANCIAL PROFILE

KU's financial metrics have been strong for its rating. As of September 30, 2015, the ratio of consolidated cash flow before changes in working capital (CFO pre W/C) to debt was 25% for the last twelve months and for the average of the past three years. Debt to capitalization was 37% for the last twelve months and for the average



over the past three years. KU's financial metrics may decline somewhat over the next few years due to the expiration of bonus depreciation in 2014 and the large capital expenditure program. However, we expect KU's financial metrics to remain supportive of its rating levels based on the company's targeted capital structure of 52% equity, which is calculated net of goodwill and fully loaded with rating agency adjustments. KU's goodwill amounted to \$607 million at the end of September 2015 and in comparison total equity, including the goodwill, was \$3,288 million.

### Liquidity Profile

KU has adequate liquidity. As of September 30, 2015, after accounting for all commercial paper backup and letter of credits issued, KU had all its \$400 million revolving facility available. For the past twelve months ending September 2015, KU had a negative free cash flow of \$145 million which is likely to be more sizeable in the coming years given its large capital expenditure program. KU's next debt maturity is the \$500 million Secured Notes maturing in 2020.

LKE manages the liquidity of its Kentucky utility operations on a consolidated basis. KU has a \$400 million stand-alone revolving credit facility and LG&E, its sister affiliate, has a \$500 million stand-alone credit facility. Both facilities expire in July 2019. LKE, KU's parent company, also has a \$75 million syndicated credit facility that expires in October 2018. Each facility contains a financial covenant requiring the companies' debt to total capitalization not to exceed 70%. All entities were in compliance as of September 30, 2015.

### Rating Outlook

KU's stable outlook reflects its supportive regulatory environment and solid financial performance. KU's stable outlook incorporates an expectation of 22%-26% CFO pre-WC to debt and 16-19% RCF to debt.

### What Could Change the Rating - Up

The potential for upgrade is constrained by the large upcoming capital expenditure program. However, ratings could be upgraded if the company received more favorable regulatory recovery mechanisms for non-environmental related capital expenditures and maintained its CFO Pre WC/debt ratios at 26% or above.

### What Could Change the Rating - Down

KU's ratings could be downgraded should the company experience an unfavorable rate case outcome or if unanticipated changes were made to the regulatory compact that currently provides for timely recovery of costs and this were to lead to the company's ratios of CFO pre-WC to debt and retained cash flow to debt dropping below 20% and 15%, respectively, for an extended period of time.

## Rating Factors

### Kentucky Utilities Co.

Regulated Electric and Gas Utilities Industry Grid [1][2]	Current LTM 9/30/2015		[3]Moody's 12-18 Month Forward ViewAs of 12/8/2015	
Factor 1 : Regulatory Framework (25%)	Measure	Score	Measure	Score
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	A	A	A	A
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	Baa	Baa	Baa	Baa
Factor 4 : Financial Strength (40%)				



a) CFO pre-WC + Interest / Interest (3 Year Avg)	8.8x	Aaa	6x - 8x	Aa
b) CFO pre-WC / Debt (3 Year Avg)	25.6%	A	22% - 26%	A
c) CFO pre-WC - Dividends / Debt (3 Year Avg)	19.6%	A	16% - 19%	A
d) Debt / Capitalization (3 Year Avg)	36.7%	A	35% - 40%	A
<b>Rating:</b>				
Grid-Indicated Rating Before Notching Adjustment		A2		A2
HoldCo Structural Subordination Notching		-		-
a) Indicated Rating from Grid		A2		A2
b) Actual Rating Assigned		A3		A3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 9/30/2015(L); Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on <http://www.moody's.com> for the most updated credit rating action information and rating history.



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# Fed's Plosser: Low rates 'should make us nervous'

Katy Barnato | Carolin Roth  
Tuesday, 11 Nov 2014 | 4:16 AM ET



Interest rates in the U.S. are unprecedentedly low, even allowing for [falling oil prices](#) and "very modest" wage growth, Philadelphia Federal Reserve President Charles Plosser told CNBC on Tuesday, who expressed concern over the low levels.

Plosser, who is one of the Fed's most outspoken "hawks" expressed concern over the low rates. Last month, the Fed confirmed that it would hold the target range for the federal funds rate at 0 to 0.25 percent.

"There are many indicators that tell us interest rates are too low," Plosser told CNBC from the UBS European Conference in London.

"There is no precedent history to have rates at zero. I think we are really behaving in a way which is outside of historical norms and that should make us nervous," he added.

Plosser conceded that "wage growth has been very modest" and that falling oil prices were pressuring short-term inflation lower—but said that rates were too low nonetheless.

"Given the unemployment rate, and even given low inflation, we are below where we would normally be," he said. "I think this is something we should be cognisant of."

Plosser added that the Fed should also avoid responding to short-term fluctuations in either the [U.S. dollar](#) or the [stock market](#).

"The dollar is not our responsibility," Plosser told CNBC.

He said the appreciation in the dollar would have "some reverberations", but these would be limited because the U.S. economy was "pretty much closed" when compared to Europe or the U.K.

[Plosser is due to retire from the Fed](#) in March next year. He was an economics professor at the University of Rochester before he became the 10th president of the Philly Fed in August 2006.

His retirement will coincide with that of Dallas Fed's Richard Fisher, another central banker who has stridently advocated paring back monetary stimulus.

Plosser and Fisher's departure could change the tenor of debate within the Fed policy-setting committee, giving it a more dovish bent.

"I am sure that a wide range of views will continue to be discussed," Plosser said regarding his retirement, for which he has no immediate plans.

"There will still be a healthy debate I'm sure."

—Writing by CNBC's [Katy Barnato](#); reporting by [Carolyn Roth](#)

# I. Press Release

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*Release Date: September 17, 2014*

## **For immediate release**

Information received since the Federal Open Market Committee met in July suggests that economic activity is expanding at a moderate pace. On balance, labor market conditions improved somewhat further; however, the unemployment rate is little changed and a range of labor market indicators suggests that there remains significant underutilization of labor resources. Household spending appears to be rising moderately and business fixed investment is advancing, while the recovery in the housing sector remains slow. Fiscal policy is restraining economic growth, although the extent of restraint is diminishing. Inflation has been running below the Committee's longer-run objective. Longer-term inflation expectations have remained stable.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with appropriate policy accommodation, economic activity will expand at a moderate pace, with labor market indicators and inflation moving toward levels the Committee judges consistent with its dual mandate. The Committee sees the risks to the outlook for economic activity and the labor market as nearly balanced and judges that the likelihood of inflation running persistently below 2 percent has diminished somewhat since early this year.

The Committee currently judges that there is sufficient underlying strength in the broader economy to support ongoing improvement in labor market conditions. In light of the cumulative progress toward maximum employment and the improvement in the outlook for labor market conditions since the inception of the current asset purchase program, the Committee decided to make a further measured reduction in the pace of its asset purchases. Beginning in October, the Committee will add to its holdings of agency mortgage-backed securities at a pace of \$5 billion per month rather than \$10 billion per month, and will add to its holdings of longer-term Treasury securities at a pace of \$10 billion per month rather than \$15 billion per month. The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. The Committee's sizable and still-increasing holdings of longer-term securities should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative, which in turn should promote a stronger economic recovery and help to ensure that inflation, over time, is at the rate most consistent with the Committee's dual mandate.

The Committee will closely monitor incoming information on economic and financial developments in coming months and will continue its purchases of Treasury and agency mortgage-backed securities, and employ its other policy tools as appropriate, until the outlook for the labor market has improved substantially in a context of price stability. If incoming information broadly supports the Committee's expectation of ongoing improvement in labor market conditions and inflation moving back toward its longer-run objective, the Committee will end its current program of asset purchases at its next meeting. However, asset purchases are not on a preset course, and the Committee's decisions about their pace will remain contingent on the Committee's outlook for the labor market and inflation as well as its assessment of the likely efficacy and costs of such purchases.

To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that a highly accommodative stance of monetary policy remains appropriate. In determining how long to maintain the current 0 to 1/4 percent target range for the federal funds rate, the Committee will assess progress--both realized and expected--toward its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations,

and readings on financial developments. The Committee continues to anticipate, based on its assessment of these factors, that it likely will be appropriate to maintain the current target range for the federal funds rate for a considerable time after the asset purchase program ends, especially if projected inflation continues to run below the Committee's 2 percent longer-run goal, and provided that longer-term inflation expectations remain well anchored.

When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent. The Committee currently anticipates that, even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run.

Voting for the FOMC monetary policy action were: Janet L. Yellen, Chair; William C. Dudley, Vice Chairman; Lael Brainard; Stanley Fischer; Narayana Kocherlakota; Loretta J. Mester; Jerome H. Powell; and Daniel K. Tarullo. Voting against the action were Richard W. Fisher and Charles I. Plosser. President Fisher believed that the continued strengthening of the real economy, improved outlook for labor utilization and for general price stability, and continued signs of financial market excess, will likely warrant an earlier reduction in monetary accommodation than is suggested by the Committee's stated forward guidance. President Plosser objected to the guidance indicating that it likely will be appropriate to maintain the current target range for the federal funds rate for "a considerable time after the asset purchase program ends," because such language is time dependent and does not reflect the considerable economic progress that has been made toward the Committee's goals.

# FEDERAL RESERVE statistical release

## H.4.1 Factors Affecting Reserve Balances of Depository Institutions and Condition Statement of Federal Reserve Banks

November 3, 2016

### 1. Factors Affecting Reserve Balances of Depository Institutions

Millions of dollars

Reserve Bank credit, related items, and reserve balances of depository institutions at Federal Reserve Banks	Averages of daily figures			Wednesday Nov 2, 2016
	Week ended Nov 2, 2016	Change from week ended		
		Oct 26, 2016	Nov 4, 2015	
Reserve Bank credit	4,412,757	- 17,278	- 38,984	4,413,155
Securities held outright <sup>1</sup>	4,217,899	- 13,785	- 22,119	4,217,925
U.S. Treasury securities	2,463,564	+ 29	+ 1,786	2,463,586
Bills <sup>2</sup>	0	0	0	0
Notes and bonds, nominal <sup>2</sup>	2,340,847	- 129	- 5,792	2,340,674
Notes and bonds, inflation-indexed <sup>2</sup>	105,353	+ 129	+ 6,819	105,526
Inflation compensation <sup>3</sup>	17,364	+ 29	+ 760	17,385
Federal agency debt securities <sup>2</sup>	18,493	0	- 15,653	18,493
Mortgage-backed securities <sup>4</sup>	1,735,843	- 13,813	- 8,252	1,735,847
Unamortized premiums on securities held outright <sup>5</sup>	175,836	- 767	- 16,386	175,708
Unamortized discounts on securities held outright <sup>5</sup>	-15,315	+ 42	+ 1,538	-15,294
Repurchase agreements <sup>6</sup>	0	0	0	0
Loans	58	- 34	- 89	35
Primary credit	4	- 2	- 2	3
Secondary credit	0	0	0	0
Seasonal credit	53	- 33	- 88	32
Other credit extensions	0	0	0	0
Net portfolio holdings of Maiden Lane LLC <sup>7</sup>	1,706	- 2	- 7	1,708
Float	-835	- 509	- 1,143	-429
Central bank liquidity swaps <sup>8</sup>	1,015	- 2,526	+ 872	1,015
Other Federal Reserve assets <sup>9</sup>	32,393	+ 303	- 1,649	32,487
Foreign currency denominated assets <sup>10</sup>	20,916	+ 47	+ 1,169	21,307
Gold stock	11,041	0	0	11,041
Special drawing rights certificate account	5,200	0	0	5,200
Treasury currency outstanding <sup>11</sup>	48,281	+ 14	+ 826	48,281
<b>Total factors supplying reserve funds</b>	<b>4,498,195</b>	<b>- 17,217</b>	<b>- 36,988</b>	<b>4,498,984</b>

Note: Components may not sum to totals because of rounding. Footnotes appear at the end of the table.



H.4.1

**1. Factors Affecting Reserve Balances of Depository Institutions (continued)**

Millions of dollars

Reserve Bank credit, related items, and reserve balances of depository institutions at Federal Reserve Banks	Averages of daily figures			Wednesday Nov 2, 2016
	Week ended Nov 2, 2016	Change from week ended		
		Oct 26, 2016	Nov 4, 2015	
Currency in circulation <sup>11</sup>	1,479,212	+ 3,300	+ 82,234	1,484,552
Reverse repurchase agreements <sup>12</sup>	395,131	- 6,178	+ 22,946	414,938
Foreign official and international accounts	239,705	+ 283	+ 39,817	238,706
Others	155,426	- 6,461	- 16,871	176,232
Treasury cash holdings	182	+ 5	- 56	184
Deposits with F.R. Banks, other than reserve balances	469,090	- 60,074	+ 411,322	414,973
Term deposits held by depository institutions	0	- 48,601	0	0
U.S. Treasury, General Account	417,665	- 11,362	+ 387,870	371,894
Foreign official	5,173	+ 3	- 97	5,172
Other <sup>13</sup>	46,253	- 113	+ 23,550	37,907
Other liabilities and capital <sup>14</sup>	46,593	- 674	- 18,854	47,128
<b>Total factors, other than reserve balances, absorbing reserve funds</b>	<b>2,390,208</b>	<b>- 63,621</b>	<b>+ 497,591</b>	<b>2,361,775</b>
<b>Reserve balances with Federal Reserve Banks</b>	<b>2,107,987</b>	<b>+ 46,404</b>	<b>- 534,579</b>	<b>2,137,209</b>

Note: Components may not sum to totals because of rounding.

1. Includes securities lent to dealers under the overnight securities lending facility; refer to table 1A.
2. Face value of the securities.
3. Compensation that adjusts for the effect of inflation on the original face value of inflation-indexed securities.
4. Guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. The current face value shown is the remaining principal balance of the securities.
5. Reflects the premium or discount, which is the difference between the purchase price and the face value of the securities that has not been amortized. For U.S. Treasury and Federal agency debt securities, amortization is on a straight-line basis. For mortgage-backed securities, amortization is on an effective-interest basis.
6. Cash value of agreements.
7. Refer to table 4 and the note on consolidation accompanying table 6.
8. Dollar value of foreign currency held under these agreements valued at the exchange rate to be used when the foreign currency is returned to the foreign central bank. This exchange rate equals the market exchange rate used when the foreign currency was acquired from the foreign central bank.
9. Includes accrued interest, which represents the daily accumulation of interest earned, and other accounts receivable. Also, includes Reserve Bank premises and equipment net of allowances for depreciation.
10. Revalued daily at current foreign currency exchange rates.
11. Estimated.
12. Cash value of agreements, which are collateralized by U.S. Treasury securities, federal agency debt securities, and mortgage-backed securities.
13. Includes deposits held at the Reserve Banks by international and multilateral organizations, government-sponsored enterprises, and designated financial market utilities. Also includes certain deposit accounts other than the U.S. Treasury, General Account, for services provided by the Reserve Banks as fiscal agents of the United States.
14. Includes the liability for earnings remittances due to the U.S. Treasury.

Sources: Federal Reserve Banks and the U.S. Department of the Treasury.

H.4.1

**1A. Memorandum Items**

Millions of dollars

Memorandum item	Averages of daily figures			Wednesday Nov 2, 2016
	Week ended Nov 2, 2016	Change from week ended		
		Oct 26, 2016	Nov 4, 2015	
Securities held in custody for foreign official and international accounts	3,120,341	- 4,891	- 163,422	3,109,033
Marketable U.S. Treasury securities <sup>1</sup>	2,800,637	- 5,613	- 161,771	2,788,407
Federal agency debt and mortgage-backed securities <sup>2</sup>	259,417	- 249	- 15,896	260,124
Other securities <sup>3</sup>	60,286	+ 970	+ 14,244	60,501
Securities lent to dealers	21,381	+ 234	+ 5,171	19,271
Overnight facility <sup>4</sup>	21,381	+ 234	+ 5,171	19,271
U.S. Treasury securities	21,356	+ 234	+ 5,197	19,247
Federal agency debt securities	25	+ 1	- 26	24

Note: Components may not sum to totals because of rounding.

1. Includes securities and U.S. Treasury STRIPS at face value, and inflation compensation on TIPS. Does not include securities pledged as collateral to foreign official and international account holders against reverse repurchase agreements with the Federal Reserve presented in tables 1, 5, and 6.
2. Face value of federal agency securities and current face value of mortgage-backed securities, which is the remaining principal balance of the securities.
3. Includes non-marketable U.S. Treasury securities, supranationals, corporate bonds, asset-backed securities, and commercial paper at face value.
4. Face value. Fully collateralized by U.S. Treasury securities.

**2. Maturity Distribution of Securities, Loans, and Selected Other Assets and Liabilities, November 2, 2016**

Millions of dollars

Remaining Maturity	Within 15 days	16 days to 90 days	91 days to 1 year	Over 1 year to 5 years	Over 5 year to 10 years	Over 10 years	All
Loans	9	26	0	0	0	...	35
<i>U.S. Treasury securities<sup>1</sup></i>							
Holdings	13,573	32,689	148,238	1,198,562	435,165	635,358	2,463,586
Weekly changes	+ 7,044	- 6,216	+ 1,345	- 4,162	+ 1,700	+ 330	+ 42
<i>Federal agency debt securities<sup>2</sup></i>							
Holdings	0	2,313	9,423	4,410	0	2,347	18,493
Weekly changes	0	0	0	0	0	0	0
<i>Mortgage-backed securities<sup>3</sup></i>							
Holdings	0	0	0	1,582	10,908	1,723,357	1,735,847
Weekly changes	0	0	0	+ 192	- 191	+ 6	+ 6
Repurchase agreements <sup>4</sup>	0	0	...	...	...	...	0
Central bank liquidity swaps <sup>5</sup>	1,015	0	0	0	0	0	1,015
Reverse repurchase agreements <sup>4</sup>	414,938	0	...	...	...	...	414,938
Term deposits	0	0	0	...	...	...	0

Note: Components may not sum to totals because of rounding.

...Not applicable.

1. Face value. For inflation-indexed securities, includes the original face value and compensation that adjusts for the effect of inflation on the original face value of such securities.
2. Face value.
3. Guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. The current face value shown is the remaining principal balance of the securities.
4. Cash value of agreements.
5. Dollar value of foreign currency held under these agreements valued at the exchange rate to be used when the foreign currency is returned to the foreign central bank. This exchange rate equals the market exchange rate used when the foreign currency was acquired from the foreign central bank.

H.4.1

**3. Supplemental Information on Mortgage-Backed Securities**

Millions of dollars

Account name	Wednesday Nov 2, 2016
Mortgage-backed securities held outright <sup>1</sup>	1,735,847
Commitments to buy mortgage-backed securities <sup>2</sup>	45,910
Commitments to sell mortgage-backed securities <sup>2</sup>	0
Cash and cash equivalents <sup>3</sup>	0

1. Guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. The current face value shown is the remaining principal balance of the securities.
2. Current face value. Generally settle within 180 days and include commitments associated with outright transactions, dollar rolls, and coupon swaps.
3. This amount is included in other Federal Reserve assets in table 1 and in other assets in table 5 and table 6.

**4. Information on Principal Accounts of Maiden Lane LLC**

Millions of dollars

Account name	Wednesday Nov 2, 2016
Net portfolio holdings of Maiden Lane LLC <sup>1</sup>	1,708
Outstanding principal amount of loan extended by the Federal Reserve Bank of New York <sup>2</sup>	0
Accrued interest payable to the Federal Reserve Bank of New York <sup>2</sup>	0
Outstanding principal amount and accrued interest on loan payable to JPMorgan Chase & Co. <sup>3</sup>	0

1. Fair value. Fair value reflects an estimate of the price that would be received upon selling an asset if the transaction were to be conducted in an orderly market on the measurement date. Revalued quarterly. This table reflects valuations as of September 30, 2016. Any assets purchased after this valuation date are initially recorded at cost until their estimated fair value as of the purchase date becomes available.
2. Book value. This amount was eliminated when preparing the Federal Reserve Bank of New York's statement of condition consistent with consolidation under generally accepted accounting principles. Refer to the note on consolidation accompanying table 6.
3. Book value. The fair value of these obligations is included in other liabilities and capital in table 1 and in other liabilities and accrued dividends in table 5 and table 6.

Note: On June 26, 2008, the Federal Reserve Bank of New York (FRBNY) extended credit to Maiden Lane LLC under the authority of section 13(3) of the Federal Reserve Act. This limited liability company was formed to acquire certain assets of Bear Stearns and to manage those assets through time to maximize repayment of the credit extended and to minimize disruption to financial markets. The remaining outstanding balances of the senior loan from FRBNY to Maiden Lane LLC, and the subordinated loan from JPMorgan Chase & Co. to Maiden Lane LLC were repaid in full, with interest.

H.4.1

**5. Consolidated Statement of Condition of All Federal Reserve Banks**

Millions of dollars

Assets, liabilities, and capital	Eliminations from consolidation	Wednesday Nov 2, 2016	Change since	
			Wednesday Oct 26, 2016	Wednesday Nov 4, 2015
<b>Assets</b>				
Gold certificate account		11,037	0	0
Special drawing rights certificate account		5,200	0	0
Coin		1,884	-	11
Securities, unamortized premiums and discounts, repurchase agreements, and loans		4,378,375	-	293
Securities held outright <sup>1</sup>		4,217,925	+	47
U.S. Treasury securities		2,463,586	+	42
Bills <sup>2</sup>		0	-	0
Notes and bonds, nominal <sup>2</sup>		2,340,674	-	302
Notes and bonds, inflation-indexed <sup>2</sup>		105,526	+	302
Inflation compensation <sup>3</sup>		17,385	+	41
Federal agency debt securities <sup>2</sup>		18,493	-	0
Mortgage-backed securities <sup>4</sup>		1,735,847	+	6
Unamortized premiums on securities held outright <sup>5</sup>		175,708	-	348
Unamortized discounts on securities held outright <sup>5</sup>		-15,294	+	49
Repurchase agreements <sup>6</sup>		0	-	0
Loans		35	-	41
Net portfolio holdings of Maiden Lane LLC <sup>7</sup>		1,708	+	3
Items in process of collection	(0)	75	+	13
Bank premises		2,199	-	3
Central bank liquidity swaps <sup>8</sup>		1,015	-	2,526
Foreign currency denominated assets <sup>9</sup>		21,307	+	436
Other assets <sup>10</sup>		30,288	+	1,143
<b>Total assets</b>	(0)	4,453,087	-	1,239

Note: Components may not sum to totals because of rounding. Footnotes appear at the end of the table.

H.4.1

**5. Consolidated Statement of Condition of All Federal Reserve Banks (continued)**

Millions of dollars

Assets, liabilities, and capital	Eliminations from consolidation	Wednesday Nov 2, 2016	Change since	
			Wednesday Oct 26, 2016	Wednesday Nov 4, 2015
<i>Liabilities</i>				
Federal Reserve notes, net of F.R. Bank holdings		1,438,335	+ 6,954	+ 82,486
Reverse repurchase agreements <sup>11</sup>		414,938	+ 30,129	+ 106,654
Deposits	(0)	2,552,182	- 39,688	- 207,961
Term deposits held by depository institutions		0	- 48,601	0
Other deposits held by depository institutions		2,137,209	+ 72,189	- 552,642
U.S. Treasury, General Account		371,894	- 48,362	+ 327,679
Foreign official		5,172	+ 6	- 109
Other <sup>12</sup>	(0)	37,907	- 14,919	+ 17,111
Deferred availability cash items	(0)	504	- 23	+ 129
Other liabilities and accrued dividends <sup>13</sup>		6,939	+ 1,383	+ 516
<b>Total liabilities</b>	<b>(0)</b>	<b>4,412,898</b>	<b>- 1,245</b>	<b>- 18,177</b>
<i>Capital accounts</i>				
Capital paid in		30,188	+ 6	+ 874
Surplus		10,000	0	- 19,314
Other capital accounts		0	0	0
<b>Total capital</b>		<b>40,188</b>	<b>+ 6</b>	<b>- 18,439</b>

Note: Components may not sum to totals because of rounding.

1. Includes securities lent to dealers under the overnight securities lending facility; refer to table 1A.
2. Face value of the securities.
3. Compensation that adjusts for the effect of inflation on the original face value of inflation-indexed securities.
4. Guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. The current face value shown is the remaining principal balance of the securities.
5. Reflects the premium or discount, which is the difference between the purchase price and the face value of the securities that has not been amortized. For U.S. Treasury and Federal agency debt securities, amortization is on a straight-line basis. For mortgage-backed securities, amortization is on an effective-interest basis.
6. Cash value of agreements, which are collateralized by U.S. Treasury and federal agency securities.
7. Refer to table 4 and the note on consolidation accompanying table 6.
8. Dollar value of foreign currency held under these agreements valued at the exchange rate to be used when the foreign currency is returned to the foreign central bank. This exchange rate equals the market exchange rate used when the foreign currency was acquired from the foreign central bank.
9. Revalued daily at current foreign currency exchange rates.
10. Includes accrued interest, which represents the daily accumulation of interest earned, and other accounts receivable.
11. Cash value of agreements, which are collateralized by U.S. Treasury securities, federal agency debt securities, and mortgage-backed securities.
12. Includes deposits held at the Reserve Banks by international and multilateral organizations, government-sponsored enterprises, and designated financial market utilities. Also includes certain deposit accounts other than the U.S. Treasury, General Account, for services provided by the Reserve Banks as fiscal agents of the United States.
13. Includes the liability for earnings remittances due to the U.S. Treasury.

H.4.1

**6. Statement of Condition of Each Federal Reserve Bank, November 2, 2016**

Millions of dollars

Assets, liabilities, and capital	Total	Boston	New York	Philadelphia	Cleveland	Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco
<b>Assets</b>													
Gold certificate account	11,037	355	3,588	359	586	760	1,541	753	360	193	296	875	1,371
Special drawing rights certificate acct.	5,200	196	1,818	210	237	412	654	424	150	90	153	282	574
Coin	1,884	48	74	159	133	301	179	278	31	53	124	186	317
Securities, unamortized premiums and discounts, repurchase agreements, and loans	4,378,375	107,555	2,491,569	118,882	131,124	267,577	245,055	174,457	55,263	32,290	60,943	155,852	537,809
Securities held outright <sup>1</sup>	4,217,925	103,614	2,400,283	114,526	126,320	257,773	236,074	168,063	53,234	31,097	58,702	150,136	518,104
U.S. Treasury securities	2,463,586	60,519	1,401,945	66,892	73,780	150,559	137,885	98,161	31,092	18,163	34,287	87,691	302,612
Bills <sup>2</sup>	0	0	0	0	0	0	0	0	0	0	0	0	0
Notes and bonds <sup>3</sup>	2,463,586	60,519	1,401,945	66,892	73,780	150,559	137,885	98,161	31,092	18,163	34,287	87,691	302,612
Federal agency debt securities <sup>2</sup>	18,493	454	10,524	502	554	1,130	1,035	737	233	136	257	658	2,272
Mortgage-backed securities <sup>4</sup>	1,735,847	42,641	987,813	47,132	51,986	106,084	97,154	69,165	21,908	12,798	24,158	61,787	213,221
Unamortized premiums on securities held outright <sup>5</sup>	175,708	4,316	99,990	4,771	5,262	10,738	9,834	7,001	2,218	1,295	2,445	6,254	21,583
Unamortized discounts on securities held outright <sup>5</sup>	-15,294	-376	-8,704	-415	-458	-935	-856	-609	-193	-113	-213	-544	-1,879
Repurchase agreements <sup>6</sup>	0	0	0	0	0	0	0	0	0	0	0	0	0
Loans	35	0	0	0	0	0	3	2	5	11	8	6	1
Net portfolio holdings of Maiden Lane LLC <sup>7</sup>	1,708	0	1,708	0	0	0	0	0	0	0	0	0	0
Items in process of collection	75	0	0	0	0	0	74	0	0	0	0	0	0
Bank premises	2,199	118	431	71	105	204	206	200	114	90	239	224	196
Central bank liquidity swaps <sup>8</sup>	1,015	45	335	56	77	226	56	27	10	4	10	13	154
Foreign currency denominated assets <sup>9</sup>	21,307	938	7,088	1,168	1,616	4,733	1,178	569	218	91	212	269	3,228
Other assets <sup>10</sup>	30,288	783	16,783	827	915	2,012	1,714	1,223	477	252	478	1,092	3,731
Interdistrict settlement account	0	- 19,243	- 19,000	- 9,198	- 3,157	- 8,481	+ 11,339	+ 3,528	+ 4,181	+ 2,837	+ 1,047	+ 23,508	+ 12,640
<b>Total assets</b>	<b>4,453,087</b>	<b>90,795</b>	<b>2,504,394</b>	<b>112,533</b>	<b>131,636</b>	<b>267,744</b>	<b>261,996</b>	<b>181,459</b>	<b>60,804</b>	<b>35,901</b>	<b>63,503</b>	<b>182,301</b>	<b>560,021</b>

Note: Components may not sum to totals because of rounding. Footnotes appear at the end of the table.

H.4.1

**6. Statement of Condition of Each Federal Reserve Bank, November 2, 2016 (continued)**

Millions of dollars

Assets, liabilities, and capital	Total	Boston	New York	Philadelphia	Cleveland	Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco
<i>Liabilities</i>													
Federal Reserve notes outstanding	1,616,099	49,892	523,852	51,530	80,497	113,908	223,310	109,108	49,767	28,206	43,113	133,840	209,076
Less: Notes held by F.R. Banks	177,764	6,452	45,422	6,536	9,407	14,117	27,225	11,887	5,545	3,164	5,813	15,503	26,693
Federal Reserve notes, net	1,438,335	43,441	478,430	44,994	71,091	99,790	196,085	97,221	44,222	25,042	37,300	118,336	182,383
Reverse repurchase agreements <sup>11</sup>	414,938	10,193	236,128	11,266	12,427	25,358	23,224	16,533	5,237	3,059	5,775	14,770	50,968
Deposits	2,552,182	35,195	1,773,495	53,838	44,654	133,099	39,915	65,873	10,738	7,068	19,881	48,398	320,028
Term deposits held by depository institutions	0	0	0	0	0	0	0	0	0	0	0	0	0
Other deposits held by depository institutions	2,137,209	35,188	1,367,970	53,836	44,650	132,813	39,906	56,758	10,724	7,067	19,880	48,397	320,020
U.S. Treasury, General Account	371,894	0	371,894	0	0	0	0	0	0	0	0	0	0
Foreign official	5,172	2	5,146	2	3	9	2	1	0	0	0	1	6
Other <sup>12</sup>	37,907	5	28,486	0	0	277	7	9,114	13	0	1	1	2
Deferred availability cash items	504	0	0	0	0	0	93	0	0	410	0	0	0
Earnings remittances due to the U.S. Treasury <sup>13</sup>	2,283	64	1,206	71	88	202	141	84	28	15	27	72	286
Other liabilities and accrued dividends	4,656	153	2,095	185	195	493	320	251	141	137	124	209	354
<b>Total liabilities</b>	<b>4,412,898</b>	<b>89,045</b>	<b>2,491,354</b>	<b>110,354</b>	<b>128,454</b>	<b>258,943</b>	<b>259,778</b>	<b>179,962</b>	<b>60,366</b>	<b>35,731</b>	<b>63,107</b>	<b>181,785</b>	<b>554,019</b>
<i>Capital</i>													
Capital paid in	30,188	1,307	9,741	1,629	2,420	6,571	1,663	1,229	336	127	296	388	4,480
Surplus	10,000	442	3,299	550	762	2,230	555	268	103	43	100	127	1,521
Other capital	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total liabilities and capital</b>	<b>4,453,087</b>	<b>90,795</b>	<b>2,504,394</b>	<b>112,533</b>	<b>131,636</b>	<b>267,744</b>	<b>261,996</b>	<b>181,459</b>	<b>60,804</b>	<b>35,901</b>	<b>63,503</b>	<b>182,301</b>	<b>560,021</b>

Note: Components may not sum to totals because of rounding. Footnotes appear at the end of the table.

H.4.1

## 6. Statement of Condition of Each Federal Reserve Bank, November 2, 2016 (continued)

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1. Includes securities lent to dealers under the overnight securities lending facility; refer to table 1A.
2. Face value of the securities.
3. Includes the original face value of inflation-indexed securities and compensation that adjusts for the effect of inflation on the original face value of such securities.
4. Guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. The current face value shown is the remaining principal balance of the securities.
5. Reflects the premium or discount, which is the difference between the purchase price and the face value of the securities that has not been amortized. For U.S. Treasury and Federal agency debt securities, amortization is on a straight-line basis. For mortgage-backed securities, amortization is on an effective-interest basis.
6. Cash value of agreements, which are collateralized by U.S. Treasury and federal agency securities.
7. Refer to table 4 and the note on consolidation below.
8. Dollar value of foreign currency held under these agreements valued at the exchange rate to be used when the foreign currency is returned to the foreign central bank. This exchange rate equals the market exchange rate used when the foreign currency was acquired from the foreign central bank.
9. Revalued daily at current foreign currency exchange rates.
10. Includes accrued interest, which represents the daily accumulation of interest earned, and other accounts receivable.
11. Cash value of agreements, which are collateralized by U.S. Treasury securities, federal agency debt securities, and mortgage-backed securities.
12. Includes deposits held at the Reserve Banks by international and multilateral organizations, government-sponsored enterprises, and designated financial market utilities. Also includes certain deposit accounts other than the U.S. Treasury, General Account, for services provided by the Reserve Banks as fiscal agents of the United States.
13. Represents the estimated weekly remittances due to U.S. Treasury. The amounts on this line represent the residual net earnings that the Federal Reserve Banks remit to the U.S. Treasury after providing for the costs of operations, payment of dividends, and the amount necessary to maintain a \$10 billion surplus.

Note on consolidation:

On June 26, 2008, the Federal Reserve Bank of New York (FRBNY) extended a loan to Maiden Lane LLC (ML) under the authority of section 13(3) of the Federal Reserve Act. ML was formed to acquire certain assets of Bear Stearns. On June 14, 2012, the remaining outstanding balance of the senior loan from FRBNY to ML was repaid in full, with interest. On November 15, 2012, the remaining outstanding balance of the subordinated loan from JPMorgan Chase & Co. to ML was repaid in full, with interest. FRBNY was the primary beneficiary of ML because it received any residual returns and could have absorbed any residual losses should they have occurred. Consistent with generally accepted accounting principles, the assets and liabilities of ML were consolidated with the assets and liabilities of FRBNY in the preparation of the statements of condition shown on this release. As a consequence of the consolidation, the extension of credit from FRBNY to ML was eliminated, the net assets of ML appeared as assets on the previous page (and in table 1 and table 5), and the liabilities of ML to entities other than FRBNY, including those with recourse only to the ML portfolio holdings, were included in other liabilities in this table (and table 1 and table 5).



H.4.1

**7. Collateral Held against Federal Reserve Notes: Federal Reserve Agents' Accounts**

Millions of dollars

Federal Reserve notes and collateral	Wednesday Nov 2, 2016
Federal Reserve notes outstanding	1,616,099
Less: Notes held by F.R. Banks not subject to collateralization	177,764
Federal Reserve notes to be collateralized	1,438,335
Collateral held against Federal Reserve notes	1,438,335
Gold certificate account	11,037
Special drawing rights certificate account	5,200
U.S. Treasury, agency debt, and mortgage-backed securities pledged <sup>1,2</sup>	1,422,098
Other assets pledged	0
<i>Memo:</i>	
Total U.S. Treasury, agency debt, and mortgage-backed securities <sup>1,2</sup>	4,217,925
Less: Face value of securities under reverse repurchase agreements	388,186
U.S. Treasury, agency debt, and mortgage-backed securities eligible to be pledged	3,829,739

Note: Components may not sum to totals because of rounding.

1. Includes face value of U.S. Treasury, agency debt, and mortgage-backed securities held outright, compensation to adjust for the effect of inflation on the original face value of inflation-indexed securities, and cash value of repurchase agreements.
2. Includes securities lent to dealers under the overnight securities lending facility; refer to table 1A.

## PERSPECTIVES

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# Prospects for and Ramifications of the Great Central Banking Unwind

William Poole

*At the CFA Institute Global Investment Risk Symposium held in Washington, DC, on 7–8 March 2013, William Poole gave a presentation on what he calls the “great central banking unwind.” Total assets on the balance sheets of the U.S. Federal Reserve and European Central Bank have exploded since 2008. The challenges and pressure faced by these and other central banks will probably have serious consequences for the global economy.*

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I am very uneasy about the current economic and fiscal situation in the United States and Europe. The central bank policies and fiscal disequilibrium in these countries are unlike any circumstances they have endured in the past; it is uncertain how the massive easing of the last five years is going to affect the developed nations’ economies as well as the global economy. The world is in uncharted territory.

I am going to focus on the U.S. Federal Reserve System and the European Central Bank (ECB). The Fed is the most important central bank in the world: Without stability in the United States, the world economy will not have stability. Not only must central banks navigate the challenges presented by slower growth and fiscal deficits, but they also face powerful political pressures that, if succumbed to, may have harmful consequences domestically and globally.

### Fed Issues vs. ECB Issues

Although both the United States and the eurozone had significant economic downturns and financial disruption during the financial crisis, the Fed’s expansionary monetary policy has been motivated primarily by a concern over unemployment whereas the ECB’s policy has been motivated by an effort to support the sovereign debt of fiscally weak governments—in particular, the southern European countries.

**Figure 1** shows the Fed’s balance sheet assets from 2007 to 2013. Before the financial crisis, its

assets were around \$850 billion; they have now risen to nearly \$3 trillion, and the Fed keeps pumping money into the system. It is unclear when the Fed’s policy of easing is going to stop or how it is going to be reversed.

But the Fed is not alone. The ECB has been pumping funds into the European markets, as shown in **Figure 2**. Total assets on the ECB’s balance sheet have increased from about €1.2 trillion in 2007 to about €3 trillion in the first quarter of 2013. The Bank of England (BOE) and a number of other central banks have been following suit. A massive monetary expansion has taken place over the last five years.

The ECB is acting as a lifeboat for sinking public finances after a collision of high levels of entitlement spending and sustained low economic growth. The plight of Greece in 2012 has led the way; other nations, Italy prominent among them, will most certainly follow. Greece was unable to raise needed funds by issuing sovereign debt after December 2008 because investors would no longer buy it; the risk of default was too high.

### Great Fed Unwind

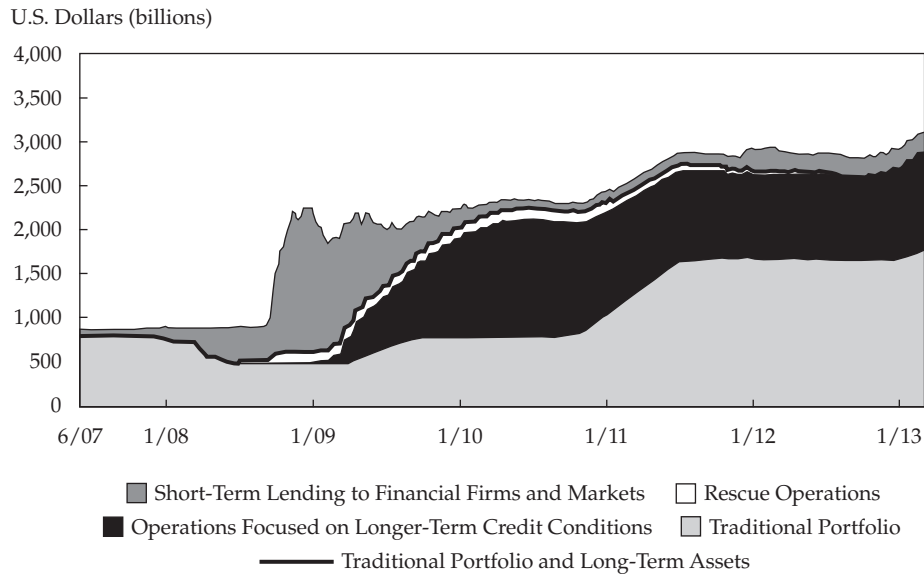
Given the very large buildup of assets on its balance sheet, it might appear that the Fed has to unwind the position, but that is not necessarily the case. The Fed might keep a very large portfolio indefinitely.

**Reserve Ratio.** The monetary mechanism that the Fed, or any central bank, uses to control the growth of money and credit is completely different from what it was in the past. The Fed’s main instrument of controlling money and credit growth in the past was the reserve requirement, which sets

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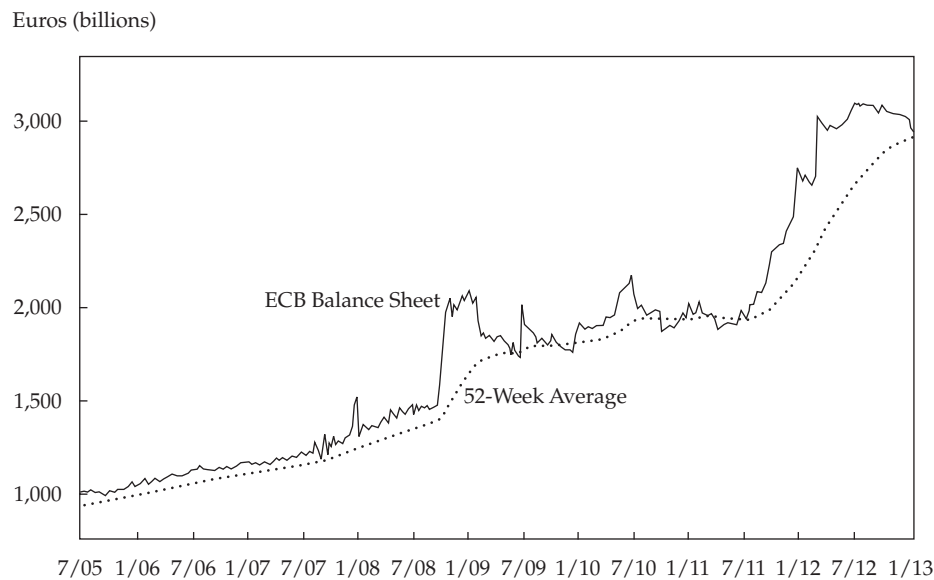
*William Poole is a senior fellow at the Cato Institute, Washington, DC.*

**Figure 1. U.S. Federal Reserve Balance Sheet Assets, June 2007–February 2013**



Source: Based on a figure from the Federal Reserve Bank of St. Louis, "U.S. Financial Data" (22 February 2013):7.

**Figure 2. ECB Balance Sheet Assets, 2005–2013**



Sources: Based on data from Gold Silver Worlds and Weldon Financial.

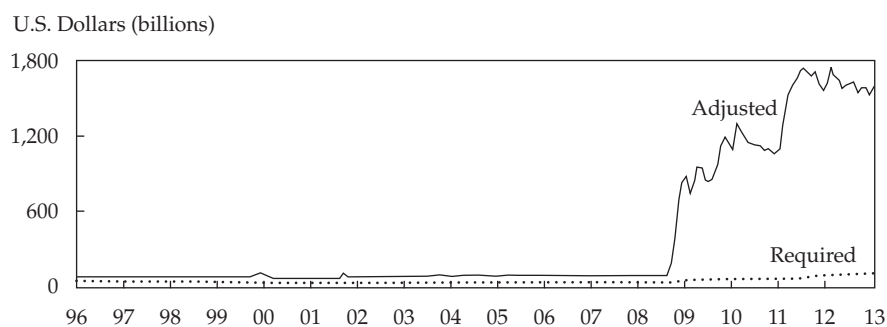
forth the amount of reserves that banks had to keep on deposit with the Fed. The amount of a bank's deposits with the Fed is a percentage of its total demand deposits.

Today, banks are no longer constrained by the reserve ratio. In the past, the Fed had no authority to pay interest on bank reserves, so banks typically held only the minimum amount of reserves required. But in 2008, new legislation gave the Fed the authority to pay interest on reserves, which the Fed has currently set at the rate of 0.25%. That rate

is above other money market rates and thus has provided an incentive for banks to increase their excess reserves at the Fed.

Figure 3 shows the dramatic increase in bank reserves since mid-2008; as of 20 February 2013, they are now more than \$1.5 trillion. Given the latest round of quantitative easing (QE) by the Federal Reserve, these bank reserves will continue to grow. The dotted line in Figure 3 represents the amount of required reserves, which contrasts markedly with the enormous stockpile of excess reserves sitting

**Figure 3. Adjusted and Required Federal Reserves, January 1996–February 2013**



Source: Based on a figure from the Federal Reserve Bank of St. Louis, “Monetary Trends” (26 February 2013):6.

on bank balance sheets. Banks are holding these reserves rather than lending them or buying assets with them because the Fed is paying interest on them. Reserves are the raw material for a money and credit expansion, but this raw material is not being actively used. To date, money and credit growth has been moderate. There are no signs of overheating, and the same is true for inflation expectations.

Two measures of the money supply—money zero maturity (MZM) and M2—are plotted in **Figure 4** from 1996 through mid-February 2013. M2 is calculated as M1 (all physical money, such as coins and currency, plus demand deposits, or checking accounts, and Negotiable Order of Withdrawal accounts) plus time deposits, savings deposits, and noninstitutional money market funds. MZM is defined as the liquid money supply in an economy—all assets convertible to cash on demand without penalty. The bigger area of shading at the right is the most recent recession, drawn from the cycle peak in December 2007 to the cycle trough in June 2009. The smaller area of shading on the left represents the much milder recession in 2001. Money stock growth measured by both definitions has recently been well within the normal range.

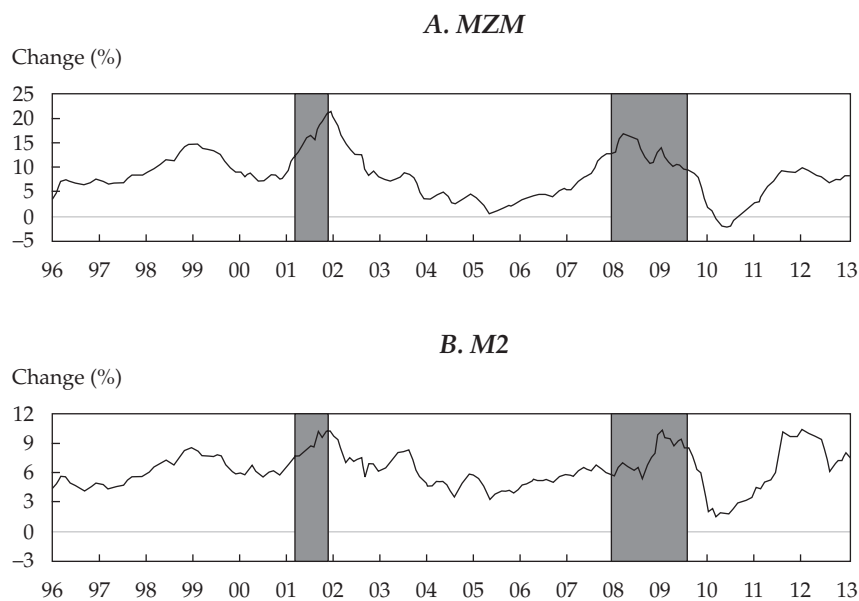
Inflation expectations can be measured in a number of ways, but I prefer a market-based measure to a survey measure. A market-based measure is derived from the spread between inflation-indexed Treasury bonds and conventional bonds. **Figure 5** compares yields in percentage terms for three different maturities: 5, 10, and 30 years. The spread between the conventional and indexed bonds stays in a relatively tight range from December 2011 to February 2013, and the spreads at the 10-year mark are in the same range they have been in for the past 10–12 years.

**Raising the Federal Funds Rate.** If inflation starts to rise, the Federal Reserve’s standard strategy is to raise its target for the federal funds rate,

which is the interest rate on interbank lending and borrowing. Federal funds are nothing more than bank reserves; banks are able to lend the reserve balances they have on account at the Fed. Now that the Fed pays interest on bank reserves, the interest rate on bank reserves is tied, almost to the basis point, to the federal funds rate. The Fed cannot raise the federal funds rate without also raising the rate that it pays on bank reserves, and at some point, the rate increases must be large enough to persuade banks to hold reserves rather than engage in an excessive expansion of money and credit that would create an inflation problem.

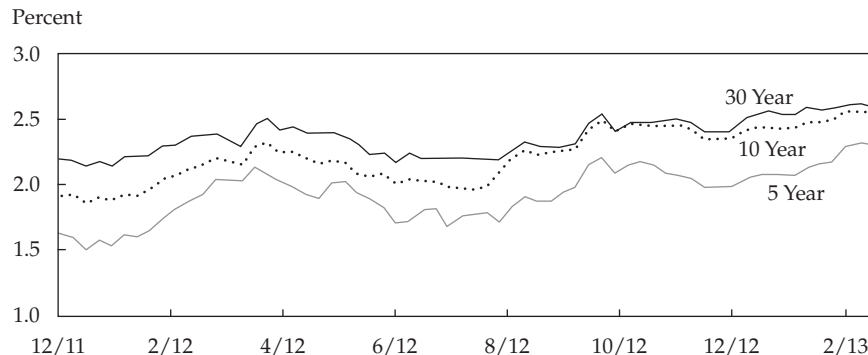
Despite all of the progress the financial industry has made in terms of modeling and statistical technology, the Fed basically decides how much to raise the federal funds rate in the same manner that a driver attempts to hold a steady speed when driving in mountainous territory. If the car is going too fast down the mountain, the driver eases up on the accelerator. If that action isn’t enough, the driver eases up more and maybe taps the brakes. Likewise, the Fed reduces its assets to drive up interest rates, but the required pace of reduction is not clear *ex ante*. The basic idea is simple: If the economy is growing too fast, the Fed taps on the monetary policy brake by increasing interest rates. The Fed then adjusts its policy based on feedback and observation of recent data.

**Forecasts.** Everyone who deals with portfolio management knows that an action taken in response to a problem depends on the decision maker’s belief about a forecast. And when making decisions, it is easy to be in denial about the most recent information. Likewise, if the Fed starts to see inflation while the unemployment rate is still high, it may choose to deny reality and take the position that the inflation bump is a temporary aberration, perhaps related to energy prices or some other issue.

**Figure 4. Change in Two Measures of the Money Supply,  
January 1996–February 2013**

Note: Change is the percentage change from one year ago.

Source: Based on a figure from the Federal Reserve Bank of St. Louis, "Monetary Trends" (26 February 2013):4.

**Figure 5. Inflation-Indexed Treasury Yield Spreads,  
December 2011–February 2013**

Note: Data represent averages of daily figures.

Source: Based on a figure from the Federal Reserve Bank of St. Louis, "U.S. Financial Data" (22 February 2013):12.

Such inaction on the part of the Federal Reserve might be motivated by a desire to avoid tightening policy too soon because of an overriding interest in and responsibility for advancing the rate of employment growth. But if the Fed is in denial too long, inflation can become embedded in the economy. One of the best examples of Fed inflation denial is illustrated by monetary policy from roughly 1965 to 1979; Paul Volcker took over as chairman of the Fed in August 1979 to deal with the inflation. After 1965, the Fed was concerned that tighter policy would choke off employment growth, so it allowed inflation to creep up and up until the creep became a gallop.

**Political Pressure.** The Fed is also likely to face political pressure to raise rates only slowly. Federal Reserve chairman Ben Bernanke talks a lot about risk management and the tradeoff between benefits and costs; he maintains that the need to balance these two issues justifies proceeding with the current policy. But Bernanke does not discuss the risk of political intervention in Fed policy despite numerous examples of the Fed giving in to political pressure and waiting too long to change its policy, which results in a detrimental outcome for the economy.

Mortgage finance interests have been extremely well organized politically and are quite influential.

Part of the Fed's QE policy is to buy \$40 billion of mortgage-backed securities (MBSs) a month. Stopping that part of its expansionary policy—without even considering unwinding the portfolio—will produce a lot of political pushback. This pushback will come through the housing and mortgage interests, through representatives in Congress, and perhaps through the president. Essentially, pressure on the Fed will come from inside the government and may not be very visible; it may be limited to a few op-ed articles from the housing lobby. The true amount of political pressure will largely be hidden.

Pressure to keep rates low will come also from those who argue that the Fed should do its share to hold down the federal budget deficit. Higher interest rates will produce a rapid and enormous increase in the interest expense in the federal budget. The Fed is going to be encouraged to suppress interest rates until longer-run reforms can be put in place to address the budget deficit.

Recent discussion has centered on the impact of Fed policy on a number of issues. For example, is Fed policy creating a bubble in the bond or stock markets or in farmland prices? Is Fed policy pushing down the dollar exchange rate? Bubbles are easy to understand after the fact but very difficult to identify in real time. Many market fluctuations were thought to be unsustainable at the time but turned out to be justified by fundamentals. So, Fed policy may or may not be bubble inducing. But the real issue is the politics of monetary policy.

I believe that the Fed will not successfully resist the political winds that buffet it. I am not a political expert or a political analyst by trade. My qualification for speaking on this topic is that I have followed the interactions between monetary policy and politics for a very long time. As with all things political, the politics of the Fed means that realities often fail to match outward appearances.

I believe the Fed is likely to overdo its current QE policy of purchasing \$45 billion of Treasuries and \$40 billion of MBSs per month. Turning off the spigot would be difficult, but to be effective, the Fed has to stop its expansionary policy before inflation becomes embedded in the economy. For policy to be effective, it needs to be preemptive. Inflation control is better when accomplished before inflation has risen, not after.

**Uncertainties.** Although forecasts always contain uncertainties, the federal budget and regulatory uncertainties today are greater than at any time over the past 60 years. These budget and regulatory uncertainties are the prime explanation for the slowness of the economic recovery; businesses are hanging back until they better understand, or think they better understand, the way that the regulations

are going to be written and interpreted. The load of regulations on the business sector is larger than it has been since the 1930s: the Affordable Care Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act, as well as the policies of the Environmental Protection Agency and the Department of Labor. I think President Obama and his administration—in large part because they do not understand the markets as well as they might—will not hesitate to pressure the Fed, initially from the inside and perhaps ultimately from the outside by encouraging heavy public criticism once the Fed embarks on a policy of raising rates. Such an approach will likely be counterproductive, and the markets will respond very negatively.

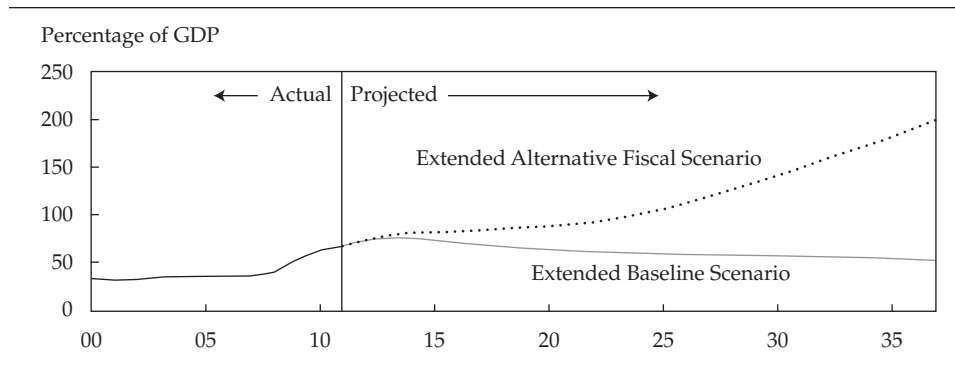
The very deep fiscal disequilibrium in the United States is best understood by looking at the data from the Congressional Budget Office (CBO). The budget games that are played with the numbers are full of screwy and misleading accounting. For example, the alternative minimum tax (AMT) was patched one year at a time so that the forward projections of revenues from the AMT would be in all the official projections of the budget. But the patchwork nature of the process created uncertainty about its final structure. Another example on the expenditure side is from more than 10 years ago: Since the Clinton years, legislation on the books has called for large reductions in Medicare reimbursements to physicians. The “doc fix” was enacted one year at a time so that the physicians would not have their reimbursements cut by a third. The budget encompassed forward projections of outlays that were lower than the outlays that would actually occur.

**Figure 6** shows the federal debt forecast under two CBO long-term budget scenarios as of June 2012. This forecast is updated each summer. The dotted line shows the projected debt level over the next 25 years without the kind of budget gimmicks I just described. The shaded line shows the debt-level projection with all the budget gimmicks included. The United States is in the process of struggling with this enormous disequilibrium, although its struggle so far has been about the discretionary part of the budget, without any very serious political discussion—let alone legislative proposals—related to Social Security and Medicare expenditures, which are driving the budget. Until entitlement outlays are addressed, the budget is going to look more like the dotted line in Figure 6 than the shaded line.

## Great ECB Unwind

The ECB has acquired a substantial amount of the sovereign debt of the fiscally weak southern European countries. It has also been lending to banks that have, in turn, purchased the debt of the weak



**Figure 6. Federal Debt Forecast under the CBO's Long-Term Budget Scenarios, 2000–2037**

Note: Forecast is as of June 2012.

Source: Based on a figure from the Congressional Budget Office, "The 2012 Long-Term Budget Outlook" (5 June 2012):2.

countries. The European banking regulations have so-called risk-weighted capital requirements, but the risk weight on all sovereign debt is zero. So, a bank can buy the bonds of Italy or Spain or even Greece and have a zero capital requirement. Obviously, the capital requirements are not truly risk weighted; they are politically weighted. The capital requirements in Europe, as in the United States, are deeply affected by the politics of bank regulation.

The situation in Europe is still very much in flux. Italy recently had a very indecisive election. The citizens of the weak nations are not embracing the austerity that is required to bring their economies back in line. They want to keep their benefits, and they do not want to pay taxes. These desires are perfectly rational but are not conducive to fiscal sustainability. So, the crisis that has long been predicted—because of much larger welfare state commitments than can be financed with an aging and retired population—has finally arrived and is by no means resolved.

The ECB cannot unwind the assets it owns unless Spain, Italy, Portugal, and Greece resolve their fiscal problems. Thus, these countries' debt might remain on the ECB's balance sheet—and the loans to these countries on European banks' balance sheets—for some time. Therefore, if Europe begins to have an inflation problem, the ECB will have its hands tied to a significant extent and will be limited in its ability to deal with rising inflation.

Europe is afraid of contagion, in which a default in one country results in investors fleeing the bond markets of the other fiscally weak countries. Thus, the weak countries remain supported by the fiscally sound countries—essentially, Germany—but Germany does not have the resources to support the weak countries indefinitely.

The ECB's charter was supposed to protect it from this situation, but the ECB has caved in to the pressure. To date, there is no evidence of

inflationary problems in Europe, at least on the continent, although the United Kingdom has experienced some inflation.

It is a close call in Europe, but I believe that the fundamental fiscal weakness in Europe will end in a crisis. The European community encompasses over-extended welfare states, many of which, particularly in southern Europe, have weak administration of tax law and negative politics on decreasing outlays. Many of its public enterprises are inefficient, and its labor markets are burdened by structural rigidities.

The consequences of poor fundamentals in Europe are negative economic growth and rising unemployment. It remains an open question whether Germany's voters will ultimately say that they will no longer support Italy, Spain, Portugal, and Greece. The Merkel administration has retained the support of the German people so far, but without any improvement in the situation, the time may come when Germany's voters ask themselves why they should pay for the excesses of others.

## Conclusion

Because no precedents exist for the massive monetary easing that has been practiced over the past five years in the United States and Europe, the uncertainty surrounding the outcome of central bank policy is also vast. So far, inflationary pressures remain subdued, but the ability and willingness of the Fed and the ECB to react quickly to control inflation fears are in jeopardy, largely because of political forces. Total assets on the balance sheets of most developed nations' central banks have grown massively since 2008, and the timing of when the banks will unwind those positions is uncertain.

*This article qualifies for 0.5 CE credit.*

## Question and Answer Session

William Poole

**Question:** Is the dual mandate of maximum employment and price stability a burden on Fed policy?

**Poole:** The dual mandate is not necessarily a problem. The 1977 law stated that the Fed is supposed to work toward two objectives: inflation and employment. In January 2012, the Federal Open Market Committee (FOMC) set forth the principles with which it approaches its dual mandate. At that time, the FOMC adopted an inflation target of 2%, and the target was renewed in January 2013. The published principles state that no central bank can promise to create a certain level of employment growth or a certain level of unemployment because those are real variables that are controlled by the real conditions in the economy, including such conditions as fiscal policy, and are ultimately not the responsibility of Fed policy.

**Question:** What is the primary weakness of the Fed?

**Poole:** I fault the Fed for its lack of intellectual leadership on the economy and, in particular, Bernanke's lack of forthrightness about the limits of the Fed's ability to address slow growth and fiscal disequilibrium. Most of the Federal Reserve bank presidents (with the exceptions of Charles Plosser in Philadelphia, Richard Fisher in Dallas, Jeffrey Lacker in Richmond, and to some extent, my successor in St. Louis, Jim Bullard) have been essentially silent on this issue, speaking only in vague terms about the necessity for fiscal stability and not identifying the uncertainty over that issue as a reason for the slow economic expansion.

**Question:** Is the Fed structured for failure?

**Poole:** That question is very important. Institutions need to be considered separately from the individuals who inhabit them. If certain individuals are going to make a mess of something,

no institutional structure can guard against that except through a system of checks and balances. Past research has shown that central bank independence produces a better result than monetary policy run by the Treasury. Independence for the Federal Reserve began 100 years ago, when the Federal Reserve Act was signed in December 1913. The Fed's structure provides substantial independence, allowing room for strong leadership to do what has to be done in the face of adverse political pressure. The Fed's structure does not guarantee independence, but it provides the room. Paul Volcker has made significant use of that independence, whereas Arthur Burns, one of the architects of monetary policy and the inflation that culminated from it, did not. No institutional structure can guarantee a good result, but institutional structures can allow strong people to fail because they lose control.

**Question:** If the Fed were to adopt the equivalent of a Taylor rule today,<sup>1</sup> what should it be?

**Poole:** A simple Taylor-like rule that relates to only a couple of variables when so much is going on is unworkable at this point. An appropriate goal might be to have a central bank that is more constrained by legislative rules, but I just do not see a workable rule at this time.

**Question:** What is your opinion about returning to the gold standard?

**Poole:** I think the gold standard is unworkable. It was not as satisfactory in the 19th century, during its heyday, as is often argued. The basic problem is easy to see. When there is a flight to liquidity, when the market wants more gold, there is no more gold. The supply is fixed. All sorts of liabilities backed by gold have been issued, but those liabilities far exceed the gold supply. Therefore, the gold standard is a recipe for a banking system that collapses under stress, although it did stabilize the price level over a long period of time.

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## Notes

1. A Taylor rule is a monetary policy rule that stipulates how much the central bank should change the nominal interest rate in response to changes in inflation, output, or other economic conditions.



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5. Standard & Poor's
6. Morningstar
7. BARRA

Value Line is the largest and most widely circulated independent investment advisory service, and influences the expectations of a large number of institutional and individual investors. The Value Line data are commercially available on a timely basis to investors in paper format or electronically. Value Line betas are derived from a least-squares regression analysis between weekly percent changes in the price of a stock and weekly percent changes in the New York Stock Exchange Average over a period of 5 years. In the case of shorter price histories, a smaller time period is used, but 2 years is the minimum. Value Line betas are computed on a theoretically sound basis using a broadly based market index, and they are adjusted for the regression tendency of betas to converge to 1.00. This necessary adjustment to beta is discussed below.

### **Practical and Conceptual Difficulties**

**Computational Issues.** Absolute estimates of beta may vary over a wide range when different computational methods are used. The return data, the time period used, its duration, the choice of market index, and whether annual, monthly, or weekly return figures are used will influence the final result.

Ideally, the returns should be total returns, that is, dividends and capital gains. In practice, beta estimates are relatively unaffected if dividends are excluded. Theoretically, market returns should be expressed in terms of total returns on a portfolio of all risky assets. In practice, a broadly based value-weighted market index is used. For example, Merrill Lynch betas use the Standard & Poor's 500 market index, while Value Line betas use the New York Stock Exchange Composite market index. In theory, unless the market index used is the true market index, fully diversified to include all securities in their proportion outstanding, the beta estimate obtained is potentially distorted. Failure to include bonds, Treasury bills, real estate, etc., could lead to a biased beta estimate. But if beta is used as a relative risk ranking device, choice of the market index may not alter the relative rankings of security risk significantly.

To enhance statistical significance, beta should be calculated with return data going as far back as possible. But the company's risk may have changed if the historical period is too long. Weighting the data for this tendency is one possible remedy, but this procedure presupposes some knowledge of how risk changed over time. A frequent compromise is to use a 5-year period with either weekly or monthly returns. Value Line betas are computed based on weekly returns over a 5-year period, whereas Merrill Lynch betas are computed with monthly returns over a 5-year period. In an empirical study of utility

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TO A  
PUBLIC UTILITY**

**Myron J. Gordon**

**1974**

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so that the current value can be widely off the mark as a measure of the expected future value.

#### 5.4 Other Measures of Growth

The measure of expected growth in the dividend established in the previous two sections, the intrinsic growth rate, is not the only possible measure of the variable. Another plausible measure is some average of the past rates of growth in the dividend. Under our model of security valuation, dividend, earnings, and price per share all are expected to grow at the same rate. Hence, the rates of growth in the dividend, earnings, and price also are candidates for estimates of the expected rate of growth in the dividend.

Let us consider first the rate of growth in earnings per share. The earnings per share during  $T$  adjusted for stock splits and stock dividends to make interperiod comparisons valid is

$$AYPS(T) = AFC(T)/.5 [ANS(T) + ANS(T - 1)], \quad (5.4.1)$$

where  $ANS(T)$  is the number of shares outstanding at the end of  $T$  adjusted for stock splits and dividends. The rate of growth in earnings per share during  $T$  is

$$YGR(T) = [AYPS(T) - AYPS(T - 1)]/AYPS(T - 1). \quad (5.4.2)$$

For reasons to be given shortly, the smoothed rate of growth in earnings is superior to the current rate as a forecast of the expected rate. The smoothed rate of earnings growth is obtained from

$$\begin{aligned} \ln[1 + YGRS(T)] &= \lambda \ln[1 + YGR(T)] \\ &+ (1 - \lambda) \ln[1 + YGRS(T - 1)], \end{aligned} \quad (5.4.3)$$

with  $\lambda = .15$  and  $YGRS(1953) = .04$ .

The primary reason for a difference between YGR and GRTH is a change in the rate of return on the common equity. To illustrate, assume a firm that has been earning a return on common of .10 and retaining one-half of its income to finance its investment. The rate of growth under both measures will be .05. If the firm's rate

of return on common rises from .10 to .11, the retention growth rate will rise from .05 to  $(.5)(.11) = .055$ . However, the earnings growth rate will rise from .05 to .155.<sup>5</sup> Furthermore, the earnings growth rate in subsequent periods will be .055 if the return on common remains .11. This example suggests that the intrinsic growth rate is superior to the earnings growth rate as a measure of expected growth. Investors nonetheless may look to past data on earnings growth for information on expected future growth, and it is the growth investors expect that should be used to measure share yield.

A number of considerations suggest that investors may, in fact, use earnings growth as a measure of expected future growth. First, the intrinsic growth rate includes stock financing growth as well as retention growth. The former is difficult for us to measure and may be even more difficult for investors. Consequently, investors may use past earnings growth to forecast the future since it incorporates in one statistic growth from all sources. Second, we saw that inflation will result in a rise in the allowed rate of return on equity for a regulated company. If this response to inflation takes place with a lag, that is, the regulatory agency raises RRC over time, earnings growth will reflect the forecast rate of growth better than intrinsic growth. Finally, it appears that security analysts use past growth in earnings more than any other variable to forecast future growth.

Given that earnings growth is used by investors to forecast future growth, the smoothed value of the variable YGRS is superior to the current value. The previous illustration revealed that YGR overreacts to changes in the allowed rate of return and therefore is subject to large random fluctuations. The data on YGR confirm this conclusion.

The use of dividend growth as a forecast of future growth is subject to the same limitations as earnings if the firm pays a constant fraction of its earnings in dividends. That is, under this assumption the dividend growth rate in any period is the same as the earnings growth rate. Firms tend to change their dividend rate from one

<sup>5</sup>Let the book value per share at the start of  $T$  be  $BVS(T - 1) = \$50.00$ . With  $RRC(T) = .10$ ,  $AYP(T) = \$5.00$ , and with  $RETR(T) = .5$ ,  $BVS(T) = \$52.50$ . If  $RRC(T + 1) = .10$ ,  $AYP(T + 1) = \$5.25$ , and  $YGR(T + 1) = RTGR(T + 1) = .05$ . However, if  $RRC(T + 1) = .11$ ,  $RTGR(T + 1) = (.11)(.5) = .055$ , while  $AYP(T + 1) = \$5.775$ , and  $YGR(T + 1) = (\$5.775 - \$5.00)/\$5.00 = .155$ .

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The average growth rate estimate from all the analysts that follow the company measures the consensus expectation of the investment community for that company. In most cases, it is necessary to use earnings forecasts rather than dividend forecasts due to the extreme scarcity of dividend forecasts compared to the widespread availability of earnings forecasts. Given the paucity and variability of dividend forecasts, using the latter would produce unreliable DCF results. In any event, the use of the DCF model prospectively assumes constant growth in both earnings and dividends. Moreover, as discussed below, there is an abundance of empirical research that shows the validity and superiority of earnings forecasts relative to historical estimates when estimating the cost of capital.

The uniformity of growth projections is a test of whether they are typical of the market as a whole. If, for example, 10 out of 15 analysts forecast growth in the 7%–9% range, the probability is high that their analysis reflects a degree of consensus in the market as a whole. As a side note, the lack of uniformity in growth projections is a reasonable indicator of higher risk. Chapter 3 alluded to divergence of opinion amongst analysts as a valid risk indicator.

Because of the dominance of institutional investors and their influence on individual investors, analysts' forecasts of long-run growth rates provide a sound basis for estimating required returns. Financial analysts exert a strong influence on the expectations of many investors who do not possess the resources to make their own forecasts, that is, they are a cause of  $g$ . The accuracy of these forecasts in the sense of whether they turn out to be correct is not at issue here, as long as they reflect widely held expectations. As long as the forecasts are typical and/or influential in that they are consistent with current stock price levels, they are relevant. The use of analysts' forecasts in the DCF model is sometimes denounced on the grounds that it is difficult to forecast earnings and dividends for only one year, let alone for longer time periods. This objection is unfounded, however, because it is present investor expectations that are being priced; it is the consensus forecast that is embedded in price and therefore in required return, and not the future as it will turn out to be.

### **Empirical Literature on Earnings Forecasts**

Published studies in the academic literature demonstrate that growth forecasts made by security analysts represent an appropriate source of DCF growth rates, are reasonable indicators of investor expectations and are more accurate than forecasts based on historical growth. These studies show that investors rely on analysts' forecasts to a greater extent than on historic data only.

Academic research confirms the superiority of analysts' earnings forecasts over univariate time-series forecasts that rely on history. This latter category

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recommendation that is different than the expected ROE that the method assumes the utility will earn forever. For example, using an expected return on equity of 11% to determine the growth rate and using the growth rate to recommend a return on equity of 9% is inconsistent. It is not reasonable to assume that this regulated utility company is expected to earn 11% forever, but recommend a 9% return on equity. The only way this utility can earn 11% is that rates be set by the regulator so that the utility will in fact earn 11%. One is assuming, in effect, that the company will earn a return rate exceeding the recommended cost of equity forever, but then one is recommending that a different rate be granted by the regulator. In essence, using an ROE in the sustainable growth formula that differs from the final estimated cost of equity is asking the regulator to adopt two different returns.

The circularity problem is somewhat dampened by the self-correcting nature of the DCF model. If a high equity return is granted, the stock price will increase in response to the unanticipated favorable return allowance, lowering the dividend yield component of market return in compensation for the high  $g$  induced by the high allowed return. At the next regulatory hearing, more conservative forecasts of  $r$  would prevail. The impact on the dual components of the DCF formula, yield and growth, are at least partially offsetting.

Third, the empirical finance literature discussed earlier demonstrates that the sustainable growth method of determining growth is not as significantly correlated to measures of value, such as stock price and price/earnings ratios, as other historical growth measures or analysts' growth forecasts. Other proxies for growth, such as historical growth rates and analysts' growth forecasts, outperform retention growth estimates. See for example Timme and Eisman (1989).

In summary, there are three proxies for the expected growth component of the DCF model: historical growth rates, analysts' forecasts, and the sustainable growth method. Criteria in choosing among the three proxies should include ease of use, ease of understanding, theoretical and mathematical correctness, and empirical validation. The latter two are crucial. The method should be logically valid and consistent, and should possess an adequate track record in predicting and explaining security value. The retention growth method is the weakest of the three proxies on both conceptual and empirical grounds. The research in this area has shown that the first two growth proxies do a better job of explaining variations in market valuation (M/B and P/E ratios) and are more highly correlated to measures of value than is the retention growth proxy.



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## TABLE OF CONTENTS

<b>Domestic Commentary</b>	<b>p. 1</b>
<b>Domestic Summary Table</b> –Table of consensus forecasts of U.S. interest rates and key economic assumptions	<b>p. 2</b>
<b>International Summary Table</b> – Table of consensus forecasts of international interest rates and foreign exchange values	<b>p. 3</b>
<b>International Commentary</b>	<b>p. 3</b>
<b>Individual Panel Member's U.S. Forecasts</b> – Of interest rates and key assumptions for the next six quarters	<b>p. 4-9</b>
<b>Individual Panel Member's International Forecasts</b> – Of international interest rates and foreign exchange values	<b>p. 10-11</b>
<b>Viewpoints</b> – A sampling of views on the economy and government policy excerpted from recent reports issued by our panel members	<b>p. 12-13</b>
<b>Special Questions</b> – Results of twice annual long-range survey forecasts for the five years 2018 through 2022 and the five-year period 2023-2027	<b>p. 14</b>
<b>Databank</b> – Monthly historical data on many key indicators of economic activity	<b>p. 15</b>
<b>Calendar</b> – Release dates for important upcoming economic Data, FOMC meetings, etc.	<b>p. 16</b>
<b>List Of Contributing Economists</b> – To Domestic and International Survey	<b>inside of back cover</b>

## About 70% Of The Panelists Look For Rate Hike In June Or July

**Domestic** Fewer than half of our panelists now believe the Federal Reserve's Open Market Committee (FOMC) will opt to hike interest rates at its June 14<sup>th</sup>-15<sup>th</sup> meeting. However, a bit more than seven-out-of-ten panelists still predict an increase will be enacted at either the June meeting or the next one in late July, according to our May 23<sup>rd</sup>-24<sup>th</sup> survey. Interestingly, the shift to a lower likelihood of a June hike and a higher likelihood of one in July occurred despite the release of minutes from the FOMC's April meeting that were interpreted by many as more hawkish than the FOMC's April policy statement and recent suggestions from several FOMC members that a June rate hike was a distinct possibility.

In answer to a special question this month, all but two of our panelists think the FOMC will hike rates at least once this year. However, the percentage of those looking for an increase at the June 14<sup>th</sup>-15<sup>th</sup> meeting fell to 38.3% from 57.4% last month and 86.0% in our April survey. A likely roadblock to a June rate hike, according to many analysts, is a desire by some FOMC members to see further evidence of a snapback in economic growth and inflation, coupled with additional improvement in labor market conditions. Many analysts also suspect that the FOMC would prefer to see the outcome of the U.K.'s June 23<sup>rd</sup> referendum on leaving the European Union.

Among the panelists looking for a later rate hike from the FOMC, 31.9% now say the first increase of this year will be enacted at its July 26<sup>th</sup>-27<sup>th</sup> meeting versus 17.0% a month ago and 4.7% a month before that. The percentage of our panelists that now say the first hike will not occur until the FOMC's September 20<sup>th</sup>-21<sup>st</sup> meeting rose to 21.3% this month from 12.8% a month ago and 4.7% in our April survey. None of the panelists predicted that the first hike of 2016 would occur at the November 1<sup>st</sup>-2<sup>nd</sup> meeting and the percentage of those forecasting the first hike would finally be enacted at the December 13<sup>th</sup>-14<sup>th</sup> meeting slipped to 4.3% this month from 10.6% in our May survey. One panelist now predicts that no rate hike will occur until the FOMC's March 2017 meeting and another foresees no rate increase this year or next.

Asked how many 25 basis point rate hikes the FOMC will enact this year, 4.4% of the panelists this month said none, 22.2% said one, 60% said two, and 13.3% said three. These forecasts compare with the "dot plot" released in conjunction with the FOMC's March meeting that implied two quarter-point rate hikes this year. Based on this month's forecasts of the federal funds rate, the consensus envisions more than two, but less than three 25 basis point increases from the FOMC in 2017. That is fewer than the four quarter-point hikes in 2017 implied by the FOMC's March "dot plot".

As previously mentioned, minutes of the FOMC's late-April meeting that were released on May 18<sup>th</sup> were seen as hawkish. Prior to their release fed funds futures prices put the odds of a June rate hike at about 14%, but that figure jumped to 30% in the wake of their release. The most hawkish takeaway from the minutes was that "most participants judged that if incoming data were consistent with economic growth picking up in the second quarter, labor market conditions continuing to strengthen, and inflation making progress toward the Committee's 2 percent objective, then it would be appropriate for the Committee to increase the target range for the federal funds rate in June." Committee members seemed to dismiss the softness of GDP growth in Q1, attributing at least some of it to the residual seasonality issues that appear to have depressed government estimates of Q1 growth in each of the past six years. They noted that labor market conditions had continued to improve and that consumer fundamentals were positive. The minutes also noted the significant improvement in financial markets following their late-2015/early-2016 swoon.

In conjunction with the implicit message in the April meeting minutes that the June meeting would be "live", a bevy of FOMC members – some voting members and some not – also have made

recent comments underscoring that a June rate hike was a possibility. San Francisco Fed President John Williams and Atlanta Fed President Dennis Lockhart have both said over the past two weeks that the June meeting is "live". Dallas Fed President Robert Kaplan recently called for a rate increase "in the not too distant future". New York Fed President William Dudley, a permanent voting member, recently said "We are on track to satisfy a lot of conditions" for a rate increase. "If I am convinced that my own forecast is sort of on track, then I think a tightening in the summer, the June-July time frame is a reasonable expectation". Boston Fed bank President Eric Rosengren was recently quoted as saying "So I want to be sensitive to how the data comes in, but I would say that most of the conditions that were laid out in the (April) minutes as of right now seem to be ... on the verge of broadly being met...". Fed Chair Janet Yellen, scheduled to speak in Massachusetts May 27<sup>th</sup> and elsewhere on June 6<sup>th</sup>, may reinforce the notion that the June meeting is "live" or simply play coy about the Fed's intentions. However, some analysts suspect recent comments from FOMC members simply represent jaw-boning and imply little about the timing of when the Fed will actually hike rates.

Consensus forecasts of real GDP growth over the next six quarters went completely unchanged this month. After growing an upwardly revised 0.8% (saar) in Q1, real GDP still is forecast to grow 2.3% in the current quarter and 2.4% in Q3 and Q4 of this year. GDP growth in the current quarter is expected to be supported by a notable pick-up in the pace of personal consumption expenditures, solid residential investment, a small contribution from business fixed investment despite another contraction in business structures, some contribution from government spending as federal defense spending rebounds, and little if any drag from net exports. Strength in these areas is expected to offset a further subtraction by inventories from GDP. Next year, the consensus still sees real GDP growing 2.3% (saar) in Q1 2017, 2.4% in Q2 and 2.3% in Q3. The consensus remains pretty sanguine about the possibility of a recession in the medium term. Asked the odds (between 0% and 100%) of a U.S. recession starting this year, the consensus forecast came in at 15.4% versus 14.9% a month ago, 16.2% in April, 19.0% in March and 16.7% in February. The consensus this month put the odds of a recession starting in 2017 at 21.3% compared to 20.3% last month, 21.4% in April, 23.2% in March and 22.0% in February.

Consensus forecasts of inflation over the forecast horizon were little changed this month, with a bias to the upside that most likely results from higher energy prices. The Consumer Price Index (CPI) is forecast to increase 2.2% (saar) in Q2, 0.3 of a percentage point faster than last month. It is expected to increase 2.4% (saar) in Q3, 0.2 of a percentage point more than last month. The forecast of its Q4 2016 change remained at 2.3% (saar). The CPI is forecast to increase 2.2% (saar) in Q1 2017, 2.4% in Q2 and 2.3% in Q3, all identical to last month except for the Q1 2017 forecast that fell 0.1 of a percentage point over the past month. Forecasts of the expected change in the GDP price index looked very similar to those of last month.

**Consensus Forecast** The consensus predicts real GDP growth will rebound to an annualized rate of slightly more than 2.0% over the next six quarters. Inflation will continue its rebound from recent depressed levels, but remain low enough to keep the FOMC cautious about raising rates rapidly. Treasury yields are expected to rise over the forecast horizon as the FOMC tightens, but the yield curve will flatten, in part because overseas sovereign yields remain below those in the U.S. The trade-weighted U.S. dollar will resume its appreciation, but increase by less than previously expected (*see page 2*).

**Long-Range Survey** On page 14 are results of our twice-yearly, long-range survey with consensus estimates for the years 2018 through 2022 and averages for the 5-year periods 2018-2022 and 2023-2027 (*see page 14*)

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

Interest Rates	History								Consensus Forecasts-Quarterly Avg.					
	Average For Week Ending				Average For Month				Latest Qtr	2Q 2016	3Q 2016	4Q 2016	1Q 2017	2Q 2017
	May 20	May 13	May 6	Apr. 29	Apr.	Mar.	Feb.	1Q 2016	2016	2016	2016	2017	2017	2017
Federal Funds Rate	0.37	0.37	0.34	0.37	0.37	0.36	0.38	0.36	0.4	0.6	0.7	0.9	1.1	1.3
Prime Rate	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.5	3.7	3.8	4.0	4.2	4.4
LIBOR, 3-mo.	0.63	0.63	0.63	0.63	0.63	0.63	0.62	0.62	0.6	0.8	1.0	1.2	1.4	1.7
Commercial Paper, 1-mo.	0.35	0.34	0.35	0.36	0.35	0.34	0.35	0.34	0.4	0.6	0.8	1.0	1.3	1.5
Treasury bill, 3-mo.	0.30	0.26	0.20	0.23	0.23	0.30	0.31	0.29	0.3	0.5	0.7	0.9	1.1	1.3
Treasury bill, 6-mo.	0.42	0.37	0.40	0.40	0.37	0.47	0.45	0.45	0.4	0.6	0.8	1.0	1.2	1.4
Treasury bill, 1 yr.	0.62	0.53	0.52	0.58	0.56	0.66	0.53	0.58	0.6	0.8	1.0	1.2	1.4	1.6
Treasury note, 2 yr.	0.86	0.74	0.75	0.82	0.77	0.88	0.73	0.84	0.8	1.0	1.2	1.4	1.6	1.8
Treasury note, 5 yr.	1.34	1.21	1.25	1.33	1.26	1.38	1.22	1.37	1.3	1.5	1.7	1.9	2.1	2.3
Treasury note, 10 yr.	1.82	1.75	1.81	1.88	1.81	1.89	1.78	1.92	1.9	2.1	2.2	2.4	2.6	2.7
Treasury note, 30 yr.	2.62	2.59	2.65	2.71	2.62	2.68	2.62	2.72	2.7	2.9	3.0	3.2	3.3	3.4
Corporate Aaa bond	3.65	3.63	3.66	3.62	3.62	3.82	3.96	3.93	3.7	3.9	4.1	4.3	4.4	4.6
Corporate Baa bond	4.69	4.64	4.66	4.75	4.79	5.13	5.32	5.30	4.9	5.1	5.2	5.4	5.5	5.7
State & Local bonds	3.26	3.32	3.32	3.32	3.30	3.38	3.30	3.36	3.4	3.5	3.6	3.8	4.0	4.1
Home mortgage rate	3.58	3.57	3.61	3.66	3.61	3.69	3.66	3.74	3.7	3.9	4.0	4.2	4.4	4.5

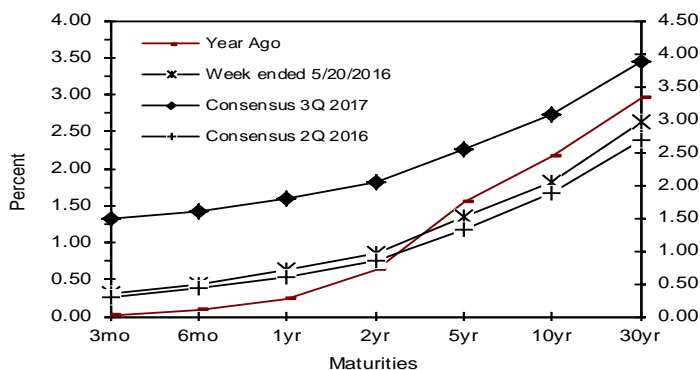
  

Key Assumptions	History								Consensus Forecasts-Quarterly					
	2Q 2014	3Q 2014	4Q 2014	1Q 2015	2Q 2015	3Q 2015	4Q 2015	1Q 2016	2Q 2016	3Q 2016	4Q 2016	1Q 2017	2Q 2017	3Q 2017
Major Currency Index	76.6	77.8	82.6	89.4	89.9	91.8	93.1	93.3	90.4	91.3	92.1	92.4	92.3	92.3
Real GDP	4.6	4.3	2.1	0.6	3.9	2.0	1.4	0.8	2.3	2.4	2.4	2.3	2.4	2.3
GDP Price Index	2.2	1.6	0.1	0.1	2.1	1.3	0.9	0.6	1.8	1.8	1.9	1.9	2.2	2.1
Consumer Price Index	1.9	0.9	-0.3	-2.9	2.4	1.4	0.8	-0.3	2.2	2.4	2.3	2.2	2.4	2.3

Forecasts for interest rates and the Federal Reserve's Major Currency Index represent averages for the quarter. Forecasts for Real GDP, GDP Price Index and Consumer Price Index are seasonally-adjusted annual rates of change (saar). Individual panel members' forecasts are on pages 4 through 9. Historical data for interest rates except LIBOR is from Federal Reserve Release (FRSR) H.15. LIBOR quotes available from *The Wall Street Journal*. Interest rate definitions are same as those in FRSR H.15. Treasury yields are reported on a constant maturity basis. Historical data for Fed's Major Currency Index is from FRSR H.10 and G.5. Historical data for Real GDP and GDP Chained Price Index are from the Bureau of Economic Analysis (BEA). Consumer Price Index (CPI) history is from the Department of Labor's Bureau of Labor Statistics (BLS).

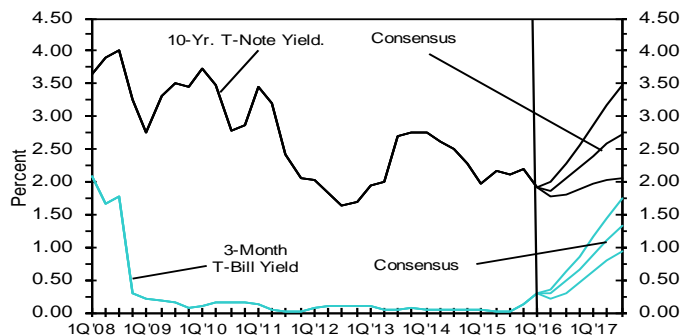
#### U.S. Treasury Yield Curve

Week ended May 20, 2016 and Year Ago v.s. 2Q 2016 and 3Q 2017 Consensus Forecasts



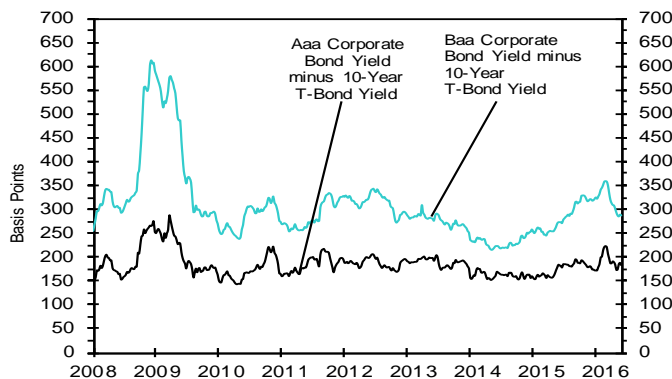
#### U.S. 3-Mo. T-Bills & 10-Yr. T-Note Yield

(Quarterly Average) Forecast



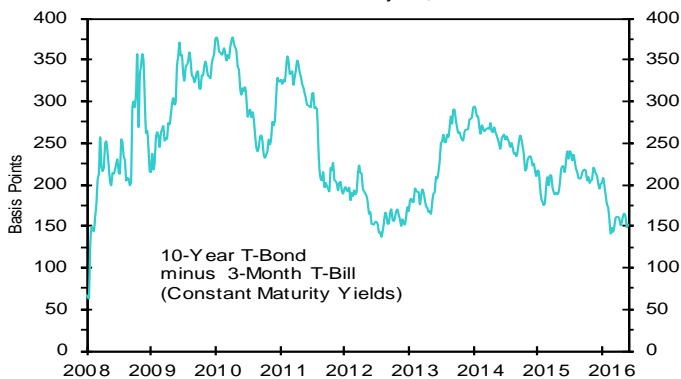
#### Corporate Bond Spreads

As of week ended May 20, 2016



#### U.S. Treasury Yield Curve

As of week May 20, 2016



-----3-Month Interest Rates<sup>1</sup>-----

	History			Consensus Forecasts		
	Month	Year	Months From Now:			
Latest:	Ago:	Ago:	3	6	12	
U.S.	0.67	0.63	0.29	<b>0.86</b>	<b>0.93</b>	<b>1.28</b>
Japan	-0.02	-0.02	0.10	<b>0.01</b>	<b>-0.01</b>	<b>0.00</b>
U.K.	0.57	0.57	0.54	<b>0.61</b>	<b>0.66</b>	<b>0.91</b>
Switzerland	-0.73	-0.72	-0.79	<b>-0.85</b>	<b>-0.85</b>	<b>0.85</b>
Canada	0.85	0.88	0.94	<b>0.70</b>	<b>0.73</b>	<b>0.98</b>
Australia	2.08	2.34	2.40	<b>1.60</b>	<b>1.60</b>	<b>1.70</b>
Eurozone	-0.26	-0.25	-0.01	<b>-0.27</b>	<b>-0.28</b>	<b>-0.27</b>

-----10-Yr. Government Bond Yields<sup>2</sup>-----

	History			Consensus Forecasts		
	Month	Year	Months From Now:			
Latest:	Ago:	Ago:	3	6	12	
U.S.	1.88	1.93	2.21	<b>2.04</b>	<b>2.13</b>	<b>2.43</b>
Germany	0.16	0.30	0.54	<b>0.37</b>	<b>0.43</b>	<b>0.67</b>
Japan	-0.10	-0.10	0.41	<b>-0.06</b>	<b>-0.02</b>	<b>0.04</b>
U.K.	1.57	1.67	2.02	<b>1.71</b>	<b>1.87</b>	<b>2.07</b>
France	0.50	0.65	0.89	<b>0.73</b>	<b>0.81</b>	<b>1.13</b>
Italy	1.36	1.54	1.86	<b>1.57</b>	<b>1.61</b>	<b>1.88</b>
Switzerland	-0.26	-0.38	-0.01	<b>-0.23</b>	<b>-0.09</b>	<b>0.19</b>
Canada	1.39	1.55	1.67	<b>1.51</b>	<b>1.65</b>	<b>1.98</b>
Australia	2.31	2.71	2.84	<b>2.41</b>	<b>2.55</b>	<b>2.72</b>
Spain	1.54	1.64	1.77	<b>1.68</b>	<b>1.73</b>	<b>1.99</b>

-----Foreign Exchange Rates<sup>1</sup>-----

	History			Consensus Forecasts		
	Month	Year	Months From Now:			
Latest:	Ago:	Ago:	3	6	12	
U.S.	90.791	89.646	89.948	<b>91.1</b>	<b>91.1</b>	<b>91.8</b>
Japan	110.52	111.50	121.45	<b>108.7</b>	<b>111.7</b>	<b>115.0</b>
U.K.	1.4513	1.4390	1.5484	<b>1.45</b>	<b>1.47</b>	<b>1.49</b>
Switzerland	0.9920	0.9774	0.9428	<b>1.02</b>	<b>1.04</b>	<b>1.04</b>
Canada	1.3136	1.2672	1.2288	<b>1.34</b>	<b>1.33</b>	<b>1.29</b>
Australia	0.7215	0.7713	0.7828	<b>0.71</b>	<b>0.71</b>	<b>0.73</b>
Euro	1.1207	1.1239	1.1033	<b>1.09</b>	<b>1.08</b>	<b>1.08</b>

Consensus  
3-Month Rates  
vs. U.S. Rate

	Now	In 12 Mo.
Japan	-0.69	<b>-1.28</b>
U.K.	-0.10	<b>-0.37</b>
Switzerland	-1.40	<b>-0.43</b>
Canada	0.18	<b>-0.31</b>
Australia	1.41	<b>0.42</b>
Eurozone	-0.93	<b>-1.55</b>

Consensus  
10-Year Gov't  
Yields vs. U.S. Yield

	Now	In 12
Germany	-1.72	<b>-1.75</b>
Japan	-1.98	<b>-2.38</b>
U.K.	-0.31	<b>-0.35</b>
France	-1.38	<b>-1.29</b>
Italy	-0.52	<b>-0.55</b>
Switzerland	-2.14	<b>-2.24</b>
Canada	-0.49	<b>-0.45</b>
Australia	0.43	<b>0.29</b>
Spain	-0.34	<b>-0.44</b>

**International Commentary** Global asset markets continued to levitate over the past month, extending recoveries from the shellacking they took earlier this year. Stocks, commodities and high-yield debt all have undergone significant rebounds from their earlier lows. Underpinning the turnaround was soothing words and in some cases easing on the part of major central banks, action by China to stabilize growth, and a pullback in the value of the U.S. dollar. Developments in June will likely determine whether the rallies get extended into the summer months or peter out. Major events confronting the markets over the next 30 days include the possibility of a rate hike from the Federal Reserve on June 15<sup>th</sup>, the U.K.'s Brexit referendum on June 23<sup>rd</sup>, general elections in Spain, Japan's likely announcement of a major fiscal stimulus package, and a German Constitutional Court ruling on the legality of the European Central Bank's QE programs.

The Bank of England's Monetary Policy Committee is expected to leave policy unchanged at its June 16<sup>th</sup> meeting in the run up to the June 23<sup>rd</sup> Brexit referendum on continued membership in the European Union. Real GDP growth slowed to 1.6% (saar) in Q1 and may come in even weaker in Q2. Consumer price inflation fell to 0.3% (y/y) in April and core inflation dipped back to 1.4%. Analysts' tend not to look for a rate hike from the MPC until early next year.

The European Central Bank (ECB) also is expected to leave policy unchanged at its June 2<sup>nd</sup> meeting. The press conference is likely to focus on implementation of already announced measures and downplay any suggestions of a further reduction in the bank's already negative deposit rate. Eurozone real GDP grew a downwardly revised, but still solid 2.1% (saar) in Q1 as Germany posted its fastest pace of expansion in two years. However, Eurozone GDP growth is expected to slow in the current quarter given data currently in hand. Eurozone inflation came in at -0.2% y/y in April.

Real GDP growth in Japan during Q1 surprised to the upside, growing at an annualized rate of 1.7% versus expectations of a slight contraction. That followed an identically-sized contraction in Q4 2015. The largest contributor to the Q1 increase was consumer spending which accounted for a full percentage point of the increase in GDP. Net exports contributed another 0.7 of a percentage point. Inventories, however, rose for a fifth, consecutive quarter. The last time we saw a string of increases that long was Q2 2008, followed thereafter by a long series of declines. Most analysts expect the government to soon announce a new fiscal stimulus package and a delay in the scheduled April 2017 increase in the VAT. Many also anticipate that the Bank of Japan will eventually provide more monetary stimulus to fight deflation. However, a move at its June 16<sup>th</sup> meeting seems unlikely.

The Bank of Canada, as expected, left its policy unchanged on May 25<sup>th</sup>, and most analysts believe it will remain on hold until early 2017 when it is expected to begin raising its overnight rate from the current record low of 0.5%. Real GDP likely grew at an annualized rate of about 3.0% in Q1. However, it is widely expected to be flat to down slightly in Q2 due the massive Alberta wildfires. The effects should be transitory, with growth rebounding to an annual rate of 3%-plus in Q3 before settling down to about 2.0% in Q4. Consumer price inflation was up 1.7% y/y in April, with the core CPI up 2.2% y/y.

As expected, the Reserve Bank of Australia cut its cash rate by 25 basis points to 1.75% on May 3<sup>rd</sup>. Moreover, minutes of the meeting hinted at another rate cut due to remain stubbornly low levels of inflation. Indeed, core consumer price inflation recently slumped to a record low of 1.55%. While GDP growth has remained solid, especially, domestic demand has softened and wage growth has slowed sharply. The Australian dollar has weakened in the wake of the RBA's May 3<sup>rd</sup> rate cut and speculation of a further reduction later this year. However, most analysts assume the RBA will hold off on another cut until at least August, since the government has called an election for July 2 (see pages 10-11 for individual panelists' forecasts).

Forecasts of panel members are on pages 10 and 11. Definitions of variables are as follows: <sup>1</sup>Three month rate on interest-earning money market deposits denominated in selected currencies. <sup>2</sup>Government bonds are yields to maturity. Foreign exchange rate forecasts for U.K., Australia and the Euro are U.S. dollars per currency unit. For the U.S. dollar, forecasts are of the U.S. Federal Reserve Board's Major Currency Index.

## Second Quarter 2016

### Interest Rate Forecasts

### Key Assumptions

Blue Chip Financial Forecasts Panel Members	-----Percent Per Annum -- Average For Quarter-----															Avg. For			
	-----Short-Term-----					-----Intermediate-Term-----					-----Long-Term-----					---Qtr---	----- (Q-Q % Change) -----		
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	A.	B.	C.	D.
	Federal Funds Rate	Prime Bank Rate	LIBOR 3-Mo.	Com. Paper 1-Mo.	Treas. Bills 3-Mo.	Treas. Bills 6-Mo.	Treas. Bills 1-Yr.	Treas. Notes 2-Yr.	Treas. Notes 5-Yr.	Treas. Notes 10-Yr.	Treas. Bonds 30-Yr.	Aaa Corp. Bond	Baa Corp. Bond	State & Local Bonds	Home Mtg. Rate	Fed's Major Currency \$ Index	Real GDP	GDP Price Index	Cons. Price Index
Scotiabank Group	0.5 H	3.5 L	na	na	0.3	na	na	0.8	1.4	2.0	2.8	na	na	na	na	na	2.2	1.8	1.1
Regions Financial Corporation	0.5 H	3.5 L	0.7	0.4	0.4 H	0.5 H	0.6	0.8	1.3	1.8	2.7	3.7	4.8	na	3.6	90.1	2.3	1.4	2.3
J.P. Morgan Chase	0.5 H	na	0.6	na	na	na	na	0.8	1.3	1.8	2.6 L	na	na	na	na	na	2.0	2.1	2.5
Swiss Re	0.5 H	3.5 L	0.7	0.4	0.3	0.4	0.8 H	1.0	1.3	1.9	2.8	3.8	4.9	na	3.7	na	2.8	1.7	2.7
DS Economics	0.5 H	3.5 L	0.6	0.5 H	0.3	0.4	0.6	0.8	1.2	1.8	2.6 L	3.7	4.7 L	3.3	3.6	92.0	2.6	1.5	2.1
Standard & Poor's Corp.	0.5 H	3.5 L	0.6	na	0.4 H	0.5 H	0.7	0.8	1.2	1.8	2.6 L	3.0 L	4.8	na	3.8	94.0 H	3.2	1.9	0.8
Action Economics	0.5 H	3.6	0.7	0.5 H	0.4 H	0.5 H	0.6	0.8	1.3	1.9	2.7	3.7	4.8	3.3	3.7	na	2.0	2.4	2.5
The Northern Trust Company	0.4 L	3.6	0.7	0.4	0.3	0.4	0.6	0.8	1.3	1.8	2.6 L	3.6	4.7 L	3.3	3.6	na	2.3	1.9	2.0
GLC Financial Economics	0.4 L	3.5 L	0.7	0.4	0.3	0.4	0.6	0.8	1.3	1.8	2.6 L	3.7	4.9	3.3	3.8	90.0	2.1	1.7	2.5
Amherst Pierpont Securities	0.4 L	3.6	0.7	0.5 H	0.4 H	0.5 H	0.6	0.9	1.4	1.9	2.7	3.7	4.7 L	3.3	3.7	90.4	2.7	1.5	2.7
DePrince & Associates	0.4 L	3.5 L	0.7	0.4	0.3	0.4	0.6	0.8	1.3	1.8	2.6 L	3.7	4.8	3.4	3.6	90.9	2.3	1.6	1.7
MacroFin Analytics	0.4 L	3.6	0.7	0.5 H	0.3	0.5 H	0.6	0.9	1.4	1.9	2.7	3.7	4.8	3.3	3.7	91.0	2.0	1.6	1.8
RidgeWorth Investments	0.4 L	3.5 L	0.8 H	0.5 H	0.3	0.5 H	0.6	0.9	1.3	1.9	2.7	3.8	5.0	3.3	3.7	91.1	2.5	1.3	3.5
Woodworth Holdings	0.4 L	3.5 L	0.5 L	0.4	0.4 H	0.5 H	0.7	0.9	1.4	1.9	2.7	3.7	4.8	3.3	3.6	89.5	2.0	0.5 L	0.8
Cycledata Corp.	0.4 L	3.5 L	0.6	0.4	0.3	0.4	0.6	0.9	1.4	1.9	2.7	3.8	5.0	3.4	3.5 L	91.0	2.4	1.8	1.8
RDQ Economics	0.4 L	3.5 L	0.6	0.5 H	0.3	0.5 H	0.7	0.8	1.4	1.9	2.6 L	3.6	4.8	3.2 L	3.6	89.6	2.9	1.7	1.9
Chase Wealth Management	0.4 L	3.6	0.8 H	0.5 H	0.4 H	0.5 H	0.7	1.0	1.5 H	2.0	2.9 H	3.9 H	5.1	3.5	3.6	91.0	2.2	1.8	1.9
Naroff Economic Advisors	0.4 L	3.6	0.7	0.5 H	0.3	0.4	0.7	0.9	1.4	1.9	2.7	3.7	4.8	3.3	3.7	90.0	3.8 H	1.7	2.0
Natl Assn. of Realtors	0.4 L	3.5 L	0.6	0.4	0.3	0.4	0.6	0.8	1.3	1.8	2.6 L	3.6	4.7 L	3.3	3.6	na	1.8	2.1	2.3
Wells Fargo	0.4 L	3.5 L	0.6	0.5 H	0.3	0.4	0.5 L	0.9	1.3	1.8	2.6 L	3.6	4.7 L	3.3	3.6	88.3 L	1.4	1.9	2.4
AIG	0.4 L	na	na	na	0.3	na	na	1.1 H	na	2.2 H	na	na	5.4 H	na	3.8	na	1.9	1.5	2.6
SunTrust Banks	0.4 L	3.5 L	0.6	0.3 L	0.3	0.5 H	0.6	0.9	1.4	1.9	2.8	3.7	5.0	3.9 H	3.9	na	2.6	1.5	1.4
Moody's Analytics	0.4 L	3.5 L	0.6	0.3 L	0.2 L	0.3 L	0.5 L	0.7 L	1.4	2.2 H	2.8	3.7	5.0	3.2 L	3.9	na	2.2	1.9	2.9
Economist Intelligence Unit	0.4 L	3.5 L	0.6	0.4	0.3	0.4	0.6	0.8	1.3	2.0	2.7	na	na	na	3.7	na	3.0	na	1.5
High Frequency Economics	0.4 L	3.5 L	na	na	0.3	0.5 H	0.7	0.9	1.4	1.9	2.7	na	na	na	na	na	2.5	2.0	2.0
Stone Harbor Investment Partners	0.4 L	3.7 H	0.6	0.5 H	0.3	0.5 H	0.7	0.9	1.4	1.9	2.7	3.7	5.0	na	3.5 L	90.0	2.3	1.6	2.3
Moody's Capital Markets Group	0.4 L	3.5 L	0.7	0.4	0.3	0.4	0.6	0.9	1.4	1.9	2.7	3.7	4.7 L	3.6	3.7	90.1	2.6	1.7	2.3
Bank of America Merrill Lynch	0.4 L	na	0.7	na	0.4 H	na	na	0.9	1.4	1.9	2.8	na	na	na	na	na	2.0	1.9	2.5
Oxford Economics	0.4 L	3.5 L	na	na	0.2 L	0.3 L	0.5 L	0.7 L	1.3	1.9	2.7	na	na	na	3.7	90.9	2.1	1.6	2.6
Nomura Securities, Inc.	0.4 L	3.5 L	0.7	na	na	na	na	0.8	1.2	1.9	2.6 L	3.8	4.8	na	3.8	na	1.7	1.6	2.7
BMO Capital Markets	0.4 L	3.5 L	0.6	na	0.3	0.4	0.6	0.8	1.3	1.8	2.6 L	na	na	na	3.6	90.0	2.3	2.6	2.8
UBS AG	0.4 L	na	0.6	na	0.3	na	na	na	na	1.9	na	na	na	na	na	na	1.3 L	2.3	3.1
Comerica Bank	0.4 L	na	0.6	na	0.2 L	0.4	0.5 L	0.8	1.2	1.8	2.6 L	na	na	na	3.6	na	1.6	1.4	4.3 H
RBC	0.4 L	na	na	na	0.2 L	na	na	0.9	1.4	2.0	2.8	na	na	na	na	na	3.1	3.7 H	1.1
Goldman Sachs & Co.	0.4 L	na	0.6	na	0.2 L	na	na	0.8	1.5 H	1.8	2.8	na	na	na	4.0 H	na	2.7	2.0	2.6
BNP Paribas Americas	0.4 L	na	0.7	na	na	na	na	0.9	1.4	1.8	na	na	na	na	na	na	2.1	na	2.6
Daiwa Capital Markets America	0.4 L	3.5 L	0.6	0.4	0.3	0.4	0.6	0.8	1.3	1.8	2.7	3.7	4.9	3.3	3.7	89.0	2.2	1.9	2.8
Barclays Capital	0.4 L	3.5 L	0.7	na	na	na	na	1.1 H	1.5 H	1.9	na	na	na	na	na	na	2.0	2.3	2.9
Georgia State University	0.4 L	3.5 L	na	na	0.3	0.4	0.6	0.8	1.3	1.8	2.6 L	3.8	5.2	na	3.7	na	1.7	1.2	0.4 L
Chmura Economics & Analytics	0.4 L	3.5 L	0.7	0.4	0.3	0.4	0.5 L	0.8	1.2	1.8	2.6 L	3.6	na	na	3.6	92.2	2.3	1.0	0.6
PNC Financial Services Corp.	0.4 L	3.5 L	0.6	na	0.2 L	0.4	0.5 L	0.8	1.3	1.8	2.6 L	na	4.7 L	3.3	3.6	91.4	2.5	1.6	2.0
Fannie Mae	0.4 L	3.5 L	na	na	0.3	0.4	0.6	0.8	1.3	1.8	2.6 L	na	na	na	3.6	na	2.2	1.2	2.2
RBS Securities	0.4 L	3.5 L	0.6	0.4	0.3	0.4	0.5 L	0.8	1.4	1.9	2.8	3.8	5.0	3.4	3.7	90.0	2.7	1.7	2.2
Wells Capital Management	0.4 L	3.5 L	0.6	0.4	0.3	0.4	0.6	0.8	1.3	1.9	2.7	3.7	4.7 L	3.4	3.7	90.0	2.5	1.9	2.4
Societe Generale	0.4 L	3.5 L	0.6	na	na	na	na	0.7 L	1.1 L	1.6 L	2.9 H	na	na	na	na	na	3.1	2.1	2.4
MUFG Union Bank	0.4 L	3.5 L	0.7	0.4	0.3	0.5 H	0.6	0.9	1.5 H	2.0	2.7	3.6	4.8	3.4	3.8	89.0	2.8	2.6	2.5
Loomis, Sayles & Company	0.4 L	3.5 L	0.6	0.4	0.3	0.4	0.5 L	0.8	1.3	1.8	2.7	3.7	4.9	3.2 L	3.5 L	88.7	2.1	1.5	2.5
<b>June Consensus</b>	<b>0.4</b>	<b>3.5</b>	<b>0.6</b>	<b>0.4</b>	<b>0.3</b>	<b>0.4</b>	<b>0.6</b>	<b>0.8</b>	<b>1.3</b>	<b>1.9</b>	<b>2.7</b>	<b>3.7</b>	<b>4.9</b>	<b>3.4</b>	<b>3.7</b>	<b>90.4</b>	<b>2.3</b>	<b>1.8</b>	<b>2.2</b>
Top 10 Avg.	0.5	3.6	0.7	0.5	0.4	0.5	0.7	1.0	1.4	2.0	2.8	3.8	5.0	3.5	3.8	91.6	3.0	2.4	3.0
Bottom 10 Avg.	0.4	3.5	0.6	0.4	0.2	0.4	0.5	0.7	1.2	1.8	2.6	3.6	4.7	3.3	3.6	89.4	1.7	1.3	1.1
May Consensus	0.4	3.6	0.7	0.5	0.3	0.5	0.6	0.9	1.4	2.0	2.8	3.8	5.0	3.4	3.8	90.8	2.3	1.8	1.9
<u>Number of Forecasts Changed From A Month Ago:</u>																			
Down	15	13	20	14	25	21	19	26	28	27	26	19	23	13	26	13	14	13	8
Same	25	23	8	8	12	9	10	13	10	10	9	6	3	5	5	5	17	16	11
Up	7	3	11	5	5	6	7	7	7	10	8	5	4	4	7	6	16	16	28
Diffusion Index	41 %	37 %	38 %	33 %	26 %	29 %	33 %	29 %	27 %	32 %	29 %	27 %	18 %	30 %	25 %	35 %	52 %	53 %	71 %

# Third Quarter 2016

## Interest Rate Forecasts

## Key Assumptions

Blue Chip Financial Forecasts Panel Members	Percent Per Annum -- Average For Quarter															Avg. For	----(Q-Q % Change)----			
	-----Short-Term-----					-----Intermediate-Term-----					-----Long-Term-----					---Qtr---	------(SAAR)-----			
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	A.	B.	C.	D.	
	Federal Funds Rate	Prime Bank Rate	LIBOR 3-Mo.	Com. Paper 1-Mo.	Treas. Bills 3-Mo.	Treas. Bills 6-Mo.	Treas. Bills 1-Yr.	Treas. Notes 2-Yr.	Treas. Notes 5-Yr.	Treas. Notes 10-Yr.	Treas. Bond 30-Yr.	Aaa Bond	Baa Corp. Bond	State & Local Bonds	Home Mtg. Rate	Fed's Major Currency \$ Index	Real GDP	GDP Price Index	Cons. Price Index	
DS Economics	0.8 H	3.8	0.9	0.8 H	0.6	0.8	1.0	1.2	1.7	2.2	3.0	4.0	5.0	3.3	4.0	94.0	2.5	1.7	2.5	
Scotiabank Group	0.8 H	3.8	na	na	0.6	na	na	1.1	1.7	2.2	3.1	na	na	na	na	na	2.3	2.0	1.4	
SunTrust Banks	0.7	3.7	0.9	0.6	0.6	0.7	0.8	1.0	1.5	1.9	2.9	4.1	5.6 H	4.0 H	4.0	na	2.8	1.6	1.5	
RDQ Economics	0.7	3.7	0.9	0.8 H	0.7	1.0 H	1.1 H	1.2	1.8 H	2.3	2.9	3.9	5.2	3.5	3.9	91.6	2.1	2.1	2.1	
Naroff Economic Advisors	0.7	3.9 H	1.0	0.8	0.8 H	0.9	1.1 H	1.3 H	1.8 H	2.3	3.1	4.0	5.2	3.5	4.1	90.5	3.1	2.0	2.4	
DePrince & Associates	0.7	3.7	0.9	0.7	0.6	0.7	0.9	1.1	1.5	2.1	2.8	3.9	4.9	3.6	3.9	89.6	2.7	1.8	2.0	
Moody's Analytics	0.7	3.8	0.9	0.6	0.3	0.4	0.6	0.9	1.7	2.5 H	3.3 H	4.1	5.6 H	3.4	4.0	na	2.9	1.5	2.5	
Regions Financial Corporation	0.7	3.7	0.8	0.6	0.6	0.7	0.8	1.0	1.5	2.0	2.8	3.8	4.8	3.7	na	92.0	2.2	1.5	2.8	
Woodworth Holdings	0.7	3.8	0.8	0.6	0.6	0.7	0.9	1.1	1.6	2.2	3.0	4.0	5.1	3.6	3.9	90.0	2.5	0.6 L	0.8 L	
GLC Financial Economics	0.7	3.8	0.9	0.7	0.6	0.7	0.8	1.0	1.7	2.2	3.0	4.2 H	5.4	3.8	4.4	90.1	2.8	1.9	2.5	
MJFG Union Bank	0.7	3.8	0.9	0.7	0.6	0.8	0.9	1.3 H	1.8 H	2.3	3.0	3.8	5.0	3.5	4.1	91.0	2.7	1.1	2.9	
MacroFin Analytics	0.6	3.8	0.9	0.7	0.6	0.7	0.9	1.1	1.7	2.1	3.0	4.0	5.0	3.6	3.9	91.7	2.4	1.7	1.7	
The Northern Trust Company	0.6	3.8	0.9	0.6	0.5	0.6	0.8	1.0	1.6	2.0	2.8	3.6	4.8	3.4	3.7	na	2.3	2.1	2.2	
Action Economics	0.6	3.8	0.7	0.7	0.6	0.6	0.8	1.0	1.6	2.1	2.8	3.8	5.0	3.4	3.7	na	2.5	1.4	2.4	
Swiss Re	0.6	3.6	0.8	0.6	0.5	0.5	1.0	1.3 H	1.5	2.1	3.1	4.0	5.0	na	3.8	na	3.1	1.4	2.4	
J.P. Morgan Chase	0.6	na	0.8	na	na	na	na	1.0	1.5	1.9	2.7	na	na	na	na	na	2.3	1.9	2.4	
BMO Capital Markets	0.6	3.8	0.9	na	0.5	0.6	0.8	1.1	1.5	2.0	2.8	na	na	na	3.8	92.7	2.5	2.3	2.6	
Nomura Securities, Inc.	0.6	3.6	0.9	na	na	na	na	1.0	1.4	2.0	2.5 L	3.9	4.9	na	3.9	na	2.3	1.6	2.8	
Bank of America Merrill Lynch	0.6	na	0.8	na	0.5	na	na	1.0	1.5	2.0	2.9	na	na	na	na	na	2.3	1.9	2.9	
Standard & Poor's Corp.	0.6	3.7	0.8	na	0.4	0.6	0.9	0.9	1.5	2.1	2.8	3.4 L	5.0	na	4.0	94.6 H	3.0	1.6	4.5 H	
Barclays Capital	0.6	3.8	0.9	na	na	na	na	1.2	1.6	2.0	na	na	na	na	na	na	2.5	2.1	3.5	
Chmura Economics & Analytics	0.6	3.8	0.9	0.6	0.5	0.7	0.9	1.1	1.7	2.2	3.0	4.0	na	na	3.9	91.8	2.8	1.5	1.1	
RidgeWorth Investments	0.6	3.8	1.0	0.7	0.5	0.6	0.8	1.0	1.6	2.2	3.0	4.0	5.2	3.7	4.0	93.0	2.0	2.0	1.8	
Stone Harbor Investment Partners	0.6	3.8	0.9	0.7	0.6	0.7	0.9	1.0	1.6	2.1	2.8	3.7	5.0	na	3.6	92.0	3.3 H	1.2	2.4	
Amherst Pierpont Securities	0.6	3.8	0.9	0.7	0.7	0.9	1.1	1.2	1.8 H	2.3	3.1	4.1	5.1	3.7	4.1	92.5	2.6	1.7	3.0	
Cycledata Corp.	0.6	3.7	0.8	0.6	0.5	0.6	0.8	1.1	1.6	2.1	2.8	3.9	5.1	3.5	3.7	92.0	2.1	2.0	2.0	
Chase Wealth Management	0.6	3.7	1.1 H	0.8 H	0.7	0.8	1.0	1.3 H	1.8	2.3	3.2	4.2 H	5.4	3.8	3.9	91.2	2.1	1.9	2.1	
Natl Assn. of Realtors	0.6	3.8	0.8	0.7	0.6	0.7	0.9	1.0	1.5	2.0	2.7	3.7	4.9	3.5	3.8	na	2.1	2.0	2.2	
Daiwa Capital Markets America	0.6	3.7	0.9	0.7	0.6	0.7	0.9	1.0	1.5	2.0	2.8	3.7	4.9	3.4	3.8	90.0	2.2	1.8	2.1	
Moody's Capital Markets Group	0.5	3.6	0.8	0.6	0.5	0.7	0.8	1.0	1.6	2.0	2.8	3.8	4.7 L	3.6	3.8	90.5	2.0	1.8	2.2	
Wells Fargo	0.5	3.6	0.7	0.6	0.4	0.5	0.6	0.9	1.4	1.9	2.7	3.7	4.9	3.4	3.7	88.3	2.6	1.9	2.4	
Goldman Sachs & Co.	0.5	na	0.8	na	0.4	na	na	0.9	1.7	2.0	2.9	na	na	na	4.5 H	na	2.3	2.1	2.8	
UBS AG	0.5	na	1.1 H	na	0.6	na	na	na	na	2.0	na	na	na	na	na	na	2.0	2.3	3.3	
Oxford Economics	0.4 L	3.6	na	na	0.4	0.6	0.8	1.1	1.6	2.1	2.9	na	na	na	3.7	91.3	2.6	2.1	2.2	
RBS Securities	0.4 L	3.6	0.7	0.4 L	0.4	0.5	0.7	1.0	1.5	2.0	2.7	3.8	5.0	3.4	3.7	91.0	2.8	1.6	2.4	
Loomis, Sayles & Company	0.4 L	3.6	0.7	0.4 L	0.3	0.4	0.6	0.9	1.3	1.8	2.5 L	3.5	4.7 L	3.1 L	3.4 L	88.3 L	2.0	1.8	3.4	
High Frequency Economics	0.4 L	3.5 L	na	na	0.4	0.6	0.7	0.7	1.4	2.2	2.9	na	na	na	na	na	2.5	2.4 H	2.4	
Economist Intelligence Unit	0.4 L	3.5 L	0.7	0.5	0.3	0.5	0.6	0.9	1.4	2.0	2.8	na	na	na	3.8	na	2.4	na	2.3	
Fannie Mae	0.4 L	3.5 L	na	na	0.6	0.7	0.8	1.0	1.5	1.9	2.7	na	na	na	3.7	na	2.2	1.6	2.7	
AIG	0.4 L	na	na	na	0.6	na	na	1.3 H	na	2.3	na	na	5.5	na	3.9	na	3.0	1.7	3.0	
Societe Generale	0.4 L	3.5 L	0.6 L	na	na	na	na	0.6 L	1.1 L	1.6 L	3.0	na	na	na	na	na	2.6	2.0	1.7	
Comerica Bank	0.4 L	na	0.6 L	na	0.2	0.4	0.5	0.8	1.2	1.7	2.6	na	na	na	3.6	na	1.3 L	1.4	3.4	
RBC	0.4 L	na	na	na	0.1 L	na	na	0.9	1.6	2.2	3.0	na	na	na	na	na	2.8	2.3	1.5	
BNP Paribas Americas	0.4 L	na	0.7	na	na	na	na	0.7	1.1 L	1.6 L	na	na	na	na	na	na	1.6	na	2.2	
Georgia State University	0.4 L	3.5 L	na	na	0.2	0.3 L	0.4 L	0.7	1.4	2.1	2.8	4.1	5.4	na	3.9	na	1.5	1.6	1.7	
Wells Capital Management	0.4 L	3.5 L	0.6 L	0.4 L	0.3	0.5	0.8	0.9	1.4	2.0	2.8	3.9	4.9	3.7	3.8	90.5	2.3	2.0	1.9	
PNC Financial Services Corp.	0.4 L	3.5 L	0.7	na	0.3	0.4	0.5	0.8	1.4	2.0	2.6	na	4.7 L	3.3	3.7	91.7	2.5	1.6	2.0	
<b>June Consensus</b>	<b>0.6</b>	<b>3.7</b>	<b>0.8</b>	<b>0.6</b>	<b>0.5</b>	<b>0.6</b>	<b>0.8</b>	<b>1.0</b>	<b>1.5</b>	<b>2.1</b>	<b>2.9</b>	<b>3.9</b>	<b>5.1</b>	<b>3.5</b>	<b>3.9</b>	<b>91.3</b>	<b>2.4</b>	<b>1.8</b>	<b>2.4</b>	
Top 10 Avg.	0.7	3.8	1.0	0.7	0.6	0.8	1.0	1.2	1.7	2.3	3.1	4.1	5.4	3.7	4.1	92.6	3.0	2.2	3.3	
Bottom 10 Avg.	0.4	3.5	0.7	0.5	0.3	0.4	0.6	0.8	1.3	1.8	2.6	3.7	4.8	3.3	3.6	89.9	1.9	1.3	1.5	
May Consensus	0.6	3.7	0.9	0.6	0.5	0.7	0.8	1.1	1.6	2.1	2.9	4.0	5.2	3.6	4.0	91.2	2.4	1.9	2.2	
<b>Number of Forecasts Changed From A Month Ago:</b>																				
Down	11	11	19	11	18	16	17	24	23	28	27	16	20	11	20	9	15	15	9	
Same	29	24	11	12	16	11	10	14	17	13	13	5	6	7	11	6	19	20	17	
Up	7	5	11	7	9	10	10	8	5	6	3	11	7	7	8	13	13	10	21	
Diffusion Index	46 %	43 %	40 %	43 %	40 %	42 %	41 %	33 %	30 %	27 %	22 %	42 %	30 %	42 %	35 %	57 %	48 %	44 %	63 %	



## Fourth Quarter 2016 Interest Rate Forecasts

### Key Assumptions

Blue Chip Financial Forecasts Panel Members	-----Percent Per Annum -- Average For Quarter-----															Avg. For ---Qtr---	------(Q-Q % Change)-----			
	-----Short-Term-----					-----Intermediate-Term-----					-----Long-Term-----						A. Fed's Major Currency \$ Index	B. Real GDP	C. GDP Price Index	D. Cons. Price Index
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15					
	Federal Funds Rate	Prime Bank Rate	LIBOR Rate 3-Mo.	Com. Paper 1-Mo.	Treas. Bills 3-Mo.	Treas. Bills 6-Mo.	Treas. Bills 1-Yr.	Treas. Notes 2-Yr.	Treas. Notes 5-Yr.	Treas. Notes 10-Yr.	Treas. Notes 30-Yr.	Aaa Corp. Bond	Baa Corp. Bond	State & Local Bonds	Home Mtg. Rate					
Naroff Economic Advisors	1.1 H	4.1 H	1.4 H	1.2 H	1.2 H	1.3 H	1.5 H	1.7 H	2.2 H	2.7	3.2	4.3	5.4	3.8	4.3	91.0	2.6	2.6	2.7	
Scotiabank Group	1.0	4.0	na	na	0.8	na	na	1.6	2.0	2.3	3.2	na	na	na	na	na	2.6	2.0	2.0	
SunTrust Banks	0.9	3.9	1.1	0.8	0.8	0.9	1.0	1.1	1.6	2.0	2.9	4.4	5.9 H	3.9	4.3	na	3.1 H	1.7	1.8	
Cycledata Corp.	0.9	4.0	1.0	0.9	0.8	0.9	1.1	1.4	1.9	2.4	3.1	4.2	5.4	3.7	3.9	92.0	2.0	2.0	2.2	
Chase Wealth Management	0.9	3.9	1.2	0.9	0.8	0.9	1.1	1.4	1.9	2.4	3.3	4.3	5.5	3.9	4.0	91.4	2.2	2.0	2.2	
MUFG Union Bank	0.9	4.0	1.1	1.0	0.8	1.0	1.2	1.7 H	2.0	2.5	3.1	4.1	5.2	3.6	4.3	93.0	2.6	1.1	2.5	
RDQ Economics	0.9	3.9	1.1	1.0	0.9	1.2	1.4	1.5	2.0	2.5	3.0	4.0	5.3	3.6	4.1	93.8	2.0	2.2	2.5	
Economist Intelligence Unit	0.9	3.9	0.9	0.8	0.6	0.8	0.9	1.3	1.7	2.2	3.0	na	na	na	4.0	na	2.2	na	2.2	
J.P. Morgan Chase	0.9	na	1.1	na	na	na	na	1.1	1.6	1.9	2.7	na	na	na	na	na	2.3	2.0	2.3	
DePrince & Assoc.	0.9	3.9	1.2	1.0	0.8	1.0	1.2	1.4	1.8	2.4	3.0	4.2	5.1	3.9	4.2	89.5	2.7	2.1	2.4	
Chmura Economics & Analytics	0.9	4.0	1.1	0.9	0.7	1.0	1.1	1.4	2.1	2.6	3.4	4.3	na	na	4.3	91.2	2.7	1.6	1.5	
Moody's Analytics	0.9	4.0	1.1	0.8	0.5	0.6	0.9	1.3	1.9	2.8 H	3.5	4.4	5.9 H	3.6	4.3	na	2.9	1.4	2.7	
GLC Financial Economics	0.8	3.9	1.1	0.9	0.8	0.9	0.9	1.2	1.9	2.5	3.2	4.6 H	5.9 H	4.1 H	4.3	90.4	3.1 H	2.7 H	2.9	
DS Economics	0.8	3.8	1.0	0.8	0.6	0.9	1.2	1.4	1.9	2.5	3.2	4.1	5.1	3.6	4.2	96.0 H	2.1	2.2	2.7	
Regions Financial Corporation	0.8	3.8	1.0	0.8	0.7	0.8	0.9	1.1	1.6	2.1	3.0	3.9	4.9	na	3.8	93.1	2.1	1.6	2.0	
Swiss Re	0.8	3.8	1.0	0.7	0.6	0.7	1.1	1.4	1.6	2.2	3.2	4.1	5.1	na	4.0	na	3.0	1.0	2.0	
High Frequency Economics	0.8	3.9	na	na	0.7	0.9	1.0	1.1	1.7	2.4	3.1	na	na	na	na	na	2.5	2.5	2.5	
Goldman Sachs & Co.	0.8	na	1.0	na	0.7	na	na	1.0	1.6	2.3	2.9	na	na	na	4.6 H	na	2.3	2.1	2.7	
UBS AG	0.8	na	1.4 H	na	1.0	na	na	na	na	2.0	na	na	na	na	na	na	2.0	2.3	3.6	
MacroFin Analytics	0.7	3.9	1.0	0.8	0.7	0.8	1.0	1.2	1.8	2.2	3.1	4.1	5.2	3.7	4.0	92.0	2.3	1.8	1.9	
Action Economics	0.7	3.8	0.8	0.8	0.7	0.8	0.9	1.2	1.7	2.2	3.0	3.9	5.1	3.4	3.8	na	2.5	1.3	1.9	
Standard & Poor's Corp.	0.7	3.9	1.0	na	0.6	0.7	1.1	1.1	1.8	2.3	3.0	3.6	5.2	na	4.2	95.0	2.7	1.7	2.0	
BMO Capital Markets	0.7	3.9	1.0	na	0.6	0.7	0.9	1.2	1.6	2.1	2.9	na	na	na	3.9	94.3	2.4	2.0	2.4	
RidgeWorth Investments	0.7	3.8	1.1	0.8	0.6	0.7	0.9	1.1	1.7	2.4	3.2	4.2	5.4	3.3	4.2	94.0	2.5	2.0	1.8	
Natl Assn. of Realtors	0.7	3.8	0.9	0.8	0.7	1.0	1.1	1.3	1.8	2.3	2.9	4.0	5.1	3.7	4.0	na	2.2	1.9	2.1	
Wells Fargo	0.7	3.7	0.9	0.8	0.6	0.7	0.8	1.2	1.6	2.0	2.8	3.8	5.0	3.5	3.8	90.0	2.5	1.9	2.2	
The Northern Trust Company	0.7	3.8	0.9	0.7	0.6	0.8	0.9	1.2	1.8	2.2	3.0	3.8	5.0	3.5	3.8	na	2.3	2.0	2.1	
Oxford Economics	0.7	3.8	na	na	0.6	0.7	1.0	1.2	1.7	2.2	3.0	na	na	na	4.0	92.2	2.4	2.1	1.9	
Stone Harbor Investment Partners	0.7	3.8	0.9	0.7	0.7	0.8	0.9	1.2	1.8	2.2	2.9	3.7	4.8	na	3.6	94.0	2.9	1.4	2.6	
Amherst Pierpont Securities	0.7	3.8	1.1	0.8	0.7	1.0	1.2	1.5	2.1	2.6	3.6 H	4.6 H	5.6	4.0	4.5	94.0	2.6	2.0	3.0	
Woodworth Holdings	0.7	3.8	0.8	0.6	0.6	0.7	0.9	1.1	1.6	2.2	3.0	4.0	5.1	3.6	3.9	90.5	2.5	0.8 L	0.9 L	
Daiwa Capital Markets America	0.7	3.9	1.1	0.8	0.7	0.9	1.0	1.2	1.6	2.0	2.9	3.8	4.9	3.5	3.9	91.0	2.3	1.8	2.2	
AIG	0.7	na	na	na	0.8	na	na	1.6	na	2.5	na	na	5.8	na	4.1	na	2.7	1.9	2.4	
Nomura Securities, Inc.	0.6	3.6	0.9	na	na	na	na	1.0	1.4	2.0	2.8	3.9	5.0	na	3.9	na	2.3	1.6	2.2	
Loomis, Sayles & Company	0.6	3.7	0.8	0.6	0.5	0.6	0.7	1.0	1.3	1.8	2.5 L	3.5 L	4.7 L	3.0 L	3.4 L	88.3 L	2.0	2.3	2.7	
Fannie Mae	0.6	3.8	na	na	0.8	0.9	1.0	1.1	1.6	2.0	2.7	na	na	na	3.7	na	2.0	1.8	2.8	
Bank of America Merrill Lynch	0.6	na	0.9	na	0.6	na	na	1.0	1.5	2.0	2.9	na	na	na	na	na	2.2	1.9	3.2	
RBC	0.6	na	na	na	0.4	na	na	1.2	1.8	2.5	3.3	na	na	na	na	na	3.0	1.6	1.8	
Barclays Capital	0.6	3.8	1.0	na	na	na	na	1.3	1.7	2.0	na	na	na	na	na	na	2.5	2.1	2.6	
RBS Securities	0.6	3.8	0.9	0.6	0.6	0.8	0.9	1.2	1.6	2.1	2.9	3.9	5.1	3.6	3.9	92.0	2.7	1.6	2.3	
Moody's Capital Markets Group	0.6	3.6	0.9	0.7	0.6	0.7	0.9	1.1	1.7	2.1	2.8	3.8	4.8	3.6	3.8	91.5	2.2	1.8	2.0	
Societe Generale	0.5	3.5	0.8	na	na	na	na	1.0	1.5	2.0	3.0	na	na	na	na	na	2.2	2.5	3.9 H	
Wells Capital Management	0.5	3.6	0.7 L	0.5 L	0.4	0.6	1.0	1.1	1.5	2.1	3.1	4.2	5.2	4.0	3.9	91.0	2.4	1.9	1.8	
Comerica Bank	0.4 L	na	0.7 L	na	0.3 L	0.4	0.6	0.8 L	1.2 L	1.8	2.6	na	na	na	3.6	na	2.1	1.8	3.1	
PNC Financial Services Corp.	0.4 L	3.6	0.8	na	0.5	0.5	0.6	1.0	1.5	2.1	2.8	na	4.9	3.4	3.8	91.3	2.3	1.6	2.0	
BNP Paribas Americas	0.4 L	na	0.7 L	na	na	na	na	0.8 L	1.2 L	1.6 L	na	na	na	na	na	na	1.5 L	na	2.2	
Georgia State University	0.4 L	3.5 L	na	na	0.3 L	0.3 L	0.5 L	0.8 L	1.5	2.3	3.0	4.3	5.5	na	4.1	na	2.4	2.1	2.4	
<b>June Consensus</b>	<b>0.7</b>	<b>3.8</b>	<b>1.0</b>	<b>0.8</b>	<b>0.7</b>	<b>0.8</b>	<b>1.0</b>	<b>1.2</b>	<b>1.7</b>	<b>2.2</b>	<b>3.0</b>	<b>4.1</b>	<b>5.2</b>	<b>3.6</b>	<b>4.0</b>	<b>92.1</b>	<b>2.4</b>	<b>1.9</b>	<b>2.3</b>	
Top 10 Avg.	0.9	4.0	1.2	0.9	0.9	1.0	1.2	1.5	2.0	2.6	3.3	4.4	5.6	3.9	4.3	93.9	2.9	2.4	3.1	
Bottom 10 Avg.	0.5	3.6	0.8	0.7	0.5	0.6	0.8	0.9	1.4	1.9	2.7	3.8	4.9	3.4	3.7	90.4	2.0	1.3	1.7	
May Consensus	0.8	3.8	1.0	0.8	0.7	0.8	1.0	1.3	1.8	2.3	3.1	4.1	5.3	3.7	4.1	91.9	2.4	1.9	2.3	
<u>Number of Forecasts Changed From A Month Ago:</u>																				
Down	11	10	15	10	16	13	12	23	27	28	24	18	16	9	25	10	11	14	8	
Same	29	21	14	13	17	14	15	16	13	13	14	6	6	7	9	6	29	24	24	
Up	7	8	11	5	9	9	9	7	5	6	5	6	3	3	4	9	7	7	15	
Diffusion Index	46 %	47 %	45 %	41 %	42 %	44 %	46 %	33 %	26 %	27 %	28 %	30 %	24 %	34 %	22 %	48 %	46 %	42 %	57 %	



## First Quarter 2017 Interest Rate Forecasts

### Key Assumptions

Blue Chip Financial Forecasts Panel Members	-----Percent Per Annum-- Average For Quarter-----															Avg. For	------(Q-Q % Change)-----		
	Short-Term					Intermediate-Term					Long-Term					---Qtr---	------(SAAR)-----		
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	A.	B.	C.	D.
	Federal Funds Rate	Prime Bank Rate	LIBOR Rate 3-Mo.	Com. Paper 1-Mo.	Treas. Bills 3-Mo.	Treas. Bills 6-Mo.	Treas. Bills 1-Yr.	Treas. Notes 2-Yr.	Treas. Notes 5-Yr.	Treas. Notes 10-Yr.	Treas. Bond 30-Yr.	Aaa Corp. Bond	Baa Corp. Bond	State & Local Bonds	Home Mtg. Rate	Fed's Major Currency \$ Index	Real GDP	Price Index	Cons. Price Index
RDQ Economics	1.4 H	4.4 H	1.7 H	1.5 H	1.5 H	1.7 H	1.9 H	2.0 H	2.5	2.9	3.4	4.4	5.5	4.1	4.5	97.1	1.9	2.2	2.5
Moody's Analytics	1.3	4.4 H	1.6	1.2	0.8	0.9	1.4	1.7	2.6 H	3.2 H	3.9	4.9	6.4 H	3.9	4.7	na	3.2	1.8	2.8
Scotiabank Group	1.3	4.3	na	na	1.3	na	na	2.0 H	2.3	2.6	3.4	na	na	na	na	na	2.3	2.0	2.5
Naroff Economic Advisors	1.3	4.3	1.6	1.3	1.4	1.5	1.7	2.0 H	2.5	3.2 H	3.7	4.4	5.5	4.1	4.7	90.0	2.2	2.4	2.9
DePrince & Associates	1.2	4.2	1.5	1.3	1.1	1.3	1.5	1.8	2.1	2.7	3.2	4.5	5.4	4.2	4.5	90.0	2.7	2.3	2.6
MUFG Union Bank	1.2	4.3	1.4	1.2	1.1	1.3	1.5	1.9	2.2	2.7	3.2	4.3	5.4	3.7	4.5	92.0	2.5	0.7 L	2.6
J.P. Morgan Chase	1.1	na	1.3	na	na	na	na	1.3	1.7	2.0	2.7	na	na	na	na	na	2.0	2.0	2.4
Chase Wealth Management	1.1	4.1	1.5	1.2	1.1	1.2	1.4	1.7	2.2	2.7	3.6	4.6	5.8	4.2	4.3	91.5	1.5	2.1	2.2
Economist Intelligence Unit	1.1	4.1	1.2	1.0	0.9	1.0	1.2	1.5	1.9	2.5	3.2	na	na	na	4.2	na	2.2	na	2.2
SunTrust Banks	1.1	4.1	1.6	1.2	0.9	1.0	1.1	1.2	1.7	2.0	2.9	4.9	6.4 H	3.9	4.7	na	3.3 H	1.8	2.0
GLC Financial Economics	1.1	4.1	1.3	1.1	1.0	1.1	1.1	1.4	2.1	2.7	3.4	4.8	6.1	4.2	4.2	90.9	2.9	2.4	3.0
UBS AG	1.0	na	1.6	na	1.2	na	na	na	na	2.1	na	na	na	na	na	na	3.0	2.3	1.5
Swiss Re	1.0	4.0	1.2	1.0	0.9	1.0	1.3	1.6	1.8	2.3	3.3	4.2	5.2	na	4.1	na	2.3	1.8	1.8
MacroFin Analytics	1.0	4.2	1.3	1.1	0.9	1.1	1.2	1.5	2.0	2.5	3.3	4.3	5.4	3.9	4.3	93.4	2.2	1.9	2.0
Regions Financial Corporation	1.0	4.0	1.2	1.1	0.8	1.0	1.1	1.4	1.8	2.3	3.1	4.0	5.0	na	4.0	92.4	2.2	1.8	2.1
Daiwa Capital Markets America	1.0	4.2	1.3	1.1	1.0	1.1	1.3	1.4	1.8	2.2	3.0	3.9	5.0	3.6	4.0	92.0	2.5	1.9	2.2
Cycledata Corp.	1.0	4.3	1.2	1.0	0.9	1.0	1.2	1.5	2.0	2.5	3.2	4.3	5.5	3.8	4.0	92.0	2.0	2.1	2.4
High Frequency Economics	1.0	4.1	na	na	1.0	1.1	1.3	1.5	2.0	2.5	3.2	na	na	na	na	na	2.3	2.6 H	2.6
DS Economics	1.0	4.0	1.1	1.0	0.8	1.1	1.4	1.6	2.2	2.7	3.4	4.0	5.0	3.8	4.3	98.0 H	2.0	2.3	2.3
Standard & Poor's Corp.	1.0	3.9	1.1	na	0.7	0.8	1.1	1.4	1.9	2.5	3.2	3.9	5.3	na	4.4	94.8	1.5	2.0	1.4
Chmura Economics & Analytics	1.0	4.0	1.2	1.0	0.8	1.0	1.3	1.5	2.4	2.8	3.6	4.6	na	na	4.5	89.4	2.7	1.8	1.9
The Northern Trust Company	0.9	4.1	1.1	0.9	0.8	1.0	1.1	1.5	2.1	2.5	3.3	4.0	5.1	3.8	4.1	na	2.3	2.0	2.1
Amherst Pierpont Securities	0.9	4.1	1.4	1.0	1.0	1.3	1.6	1.8	2.4	3.0	4.0 H	5.1 H	6.2	4.4 H	4.8 H	95.0	2.3	2.3	3.1 H
Oxford Economics	0.9	3.9	na	na	0.9	1.0	1.2	1.5	1.9	2.4	3.1	na	na	na	4.3	92.8	2.2	2.0	2.4
Moody's Capital Markets Group	0.9	3.9	1.2	1.0	1.0	1.1	1.1	1.2	1.8	2.2	2.8	3.9	4.8	3.6	3.9	92.0	2.7	1.8	1.8
Woodworth Holdings	0.9	4.0	1.0	0.9	0.9	1.0	1.2	1.4	2.0	2.5	3.2	4.3	5.4	3.8	4.2	91.0	2.5	1.0	1.2 L
Natl Assn. of Realtors	0.9	4.0	1.1	1.0	1.0	1.2	1.3	1.5	2.1	2.5	3.1	4.2	5.3	3.9	4.2	na	2.1	2.0	2.1
Wells Fargo	0.9	3.9	1.1	1.0	0.8	0.9	1.0	1.3	1.7	2.1	2.8	3.9	5.0	3.5	3.9	91.8	2.2	2.0	2.1
AIG	0.9	na	na	na	1.0	na	na	1.8	na	2.6	na	na	5.9	na	4.1	na	2.1	2.0	2.2
Nomura Securities, Inc.	0.9	3.9	1.2	na	na	na	na	1.3	1.8	2.3	2.7	4.2	5.2	na	4.1	na	2.1	1.6	2.0
Action Economics	0.9	4.0	1.0	0.9	0.8	0.9	1.1	1.3	1.9	2.4	3.1	4.0	5.2	3.5	4.0	na	2.0	1.8	2.1
Goldman Sachs	0.9	na	1.1	na	0.8	na	na	1.2	1.7	2.5	2.9	na	na	na	4.7	na	2.0	2.1	2.6
BMO Capital Markets	0.9	4.0	1.1	na	0.8	0.9	1.1	1.3	1.7	2.2	2.9	na	na	na	3.9	94.5	2.0	2.3	2.6
Barclays Capital	0.9	4.0	1.2	na	na	na	na	1.4	1.7	2.0	na	na	na	na	na	na	2.5	2.2	2.0
RBC	0.9	na	na	na	0.8	na	na	1.3	1.9	2.6	3.3	na	na	na	na	na	2.7	1.2	2.1
RidgeWorth Investments	0.9	4.0	1.2	0.9	0.7	0.9	1.1	1.3	1.9	2.6	3.4	4.4	5.6	4.3	4.4	93.0	2.5	2.0	2.2
Stone Harbor Investment Partners	0.9	4.0	1.1	0.9	0.8	1.0	1.2	1.4	2.0	2.3	3.0	3.9	4.9	na	3.8	93.0	2.4	1.8	2.3
Societe Generale	0.8	3.8	1.1	na	na	na	na	1.2	1.8	2.2	3.1	na	na	na	na	na	2.3	2.2	2.7
Wells Capital Management	0.7	3.8	1.0	0.8	0.7	0.9	1.3	1.4	1.7	2.2	3.2	4.4	5.4	4.2	4.0	91.2	2.6	2.0	1.9
RBS Securities	0.7	3.8	1.1	0.7	0.7	0.9	1.1	1.5	1.9	2.4	3.0	4.2	5.4	3.7	4.2	93.0	2.5	1.7	2.2
Fannie Mae	0.7	3.8	na	na	1.0	1.0	1.1	1.2	1.6	2.0	2.7	na	na	na	3.8	na	1.9	2.1	2.3
Comerica Bank	0.6	na	0.9	na	0.5	0.6	0.8	1.0	1.5	1.9	2.8	na	na	na	3.8	na	2.4	1.8	2.0
Loomis, Sayles & Company	0.6	3.7	0.8 L	0.6 L	0.5	0.6	0.8	1.1	1.4	1.8	2.5 L	3.5 L	4.7 L	2.9 L	3.4 L	88.3 L	2.0	2.5	2.8
PNC Financial Services Corp.	0.6	3.8	0.9	na	0.6	0.6	0.8	1.1	1.7	2.2	2.9	na	5.0	3.5	3.9	91.6	2.2	1.9	2.2
Georgia State University	0.4 L	3.5 L	na	na	0.4 L	0.5 L	0.4 L	0.8 L	1.6	2.4	3.0	4.3	5.5	na	4.3	na	3.1	0.9	2.5
BNP Paribas Americas	0.4 L	na	0.9	na	na	na	na	1.0	1.3 L	1.6 L	na	na	na	na	na	na	1.4 L	na	1.7
<b>June Consensus</b>	<b>0.9</b>	<b>4.0</b>	<b>1.2</b>	<b>1.0</b>	<b>0.9</b>	<b>1.0</b>	<b>1.2</b>	<b>1.4</b>	<b>1.9</b>	<b>2.4</b>	<b>3.2</b>	<b>4.3</b>	<b>5.4</b>	<b>3.8</b>	<b>4.2</b>	<b>92.4</b>	<b>2.3</b>	<b>1.9</b>	<b>2.2</b>
Top 10 Avg.	1.2	4.2	1.5	1.2	1.2	1.3	1.5	1.8	2.3	2.9	3.6	4.6	5.9	4.1	4.6	94.5	2.9	2.4	2.8
Bottom 10 Avg.	0.6	3.8	1.0	0.9	0.6	0.7	0.9	1.1	1.6	2.0	2.8	3.9	5.0	3.5	3.8	90.6	1.8	1.4	1.7
May Consensus	1.0	4.1	1.3	1.1	1.0	1.1	1.3	1.5	2.0	2.5	3.2	4.3	5.5	3.9	4.3	92.1	2.3	2.0	2.3
<b>Number of Forecasts Changed From A Month Ago:</b>																			
Down	13	13	18	12	16	16	16	22	24	27	24	19	21	11	24	10	11	10	10
Same	27	22	14	11	18	12	14	19	17	15	13	6	5	7	10	7	28	26	27
Up	7	4	8	4	8	8	6	5	4	5	6	4	4	4	4	9	8	9	10
Diffusion Index	44 %	38 %	38 %	35 %	40 %	39 %	36 %	32 %	28 %	27 %	29 %	24 %	22 %	34 %	24 %	48 %	47 %	49 %	50 %

# Second Quarter 2017

## Interest Rate Forecasts

## Key Assumptions

Blue Chip Financial Forecasts Panel Members	-----Percent Per Annum -- Average For Quarter-----															Avg. For ---Qtr.---	----- (Q-Q % Change) -----				
	Short-Term					Intermediate-Term					Long-Term						Fed's Major Currency \$ Index	----- (SAAR) -----			
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15			A.	B.	C.	D.
	Federal Funds Rate	Prime Bank Rate	LIBOR Rate 3-Mo.	Com. Paper 1-Mo.	Treas. Bills 3-Mo.	Treas. Bills 6-Mo.	Treas. Bills 1-Yr.	Treas. Notes 2-Yr.	Treas. Notes 5-Yr.	Treas. Notes 10-Yr.	Treas. Bond 30-Yr.	Aaa Corp. Bond	Baa Corp. Bond	State & Local Bonds	Home Mtg. Rate			Fed's Major Currency \$ Index	Real GDP	Price Index	Cons. Price Index
Moody's Analytics	1.7 H	4.9 H	2.0 H	1.6	1.2	1.3	1.9	2.0	2.9	3.6 H	4.2 H	5.1	6.7 H	4.1	5.1	na	3.1 H	2.1	2.9		
RDQ Economics	1.7 H	4.7	2.0 H	1.8 H	1.8 H	2.0 H	2.2 H	2.3	2.8	3.2	3.6	4.7	5.7	4.3	4.8	98.2 H	1.9	2.3	2.7		
Scotiabank Group	1.5	4.5	na	na	1.6	na	na	2.3	2.6	2.8	3.5	na	na	na	na	na	2.4	2.0	2.3		
Naroff Economic Advisors	1.5	4.5	1.9	1.6	1.7	1.9	2.2 H	2.5 H	3.0 H	3.6 H	4.1	4.7	5.7	4.1	5.2 H	88.5	2.6	2.6	3.1		
DePrince & Assoc.	1.4	4.4	1.8	1.6	1.4	1.5	1.8	2.2	2.5	3.0	3.5	4.8	5.7	4.5	4.8	90.5	2.8	2.3	2.5		
MUFG Union Bank	1.4	4.5	1.6	1.5	1.4	1.6	1.8	2.1	2.4	2.8	3.3	4.5	5.7	3.8	4.6	90.0	2.5	2.5	3.8		
J.P. Morgan Chase	1.4	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	2.0	2.0	2.4		
Economist Intelligence Unit	1.4	4.4	1.5	1.3	1.2	1.3	1.4	1.8	2.2	2.7	3.5	na	na	na	4.4	na	2.8	na	2.3		
GLC Financial Economics	1.3	4.3	1.6	1.4	1.3	1.3	1.4	1.6	2.4	3.0	3.7	5.0	6.2	4.4	4.8	91.0	2.9	2.8	3.0		
Amherst Pierpont Securities	1.3	4.5	1.8	1.4	1.4	1.7	2.1	2.2	2.8	3.3	3.4	5.4 H	6.5	4.6	5.1	96.0	2.6	2.2	3.2		
Cycledata Corp.	1.3	4.5	1.5	1.3	1.2	1.3	1.4	1.6	2.1	2.6	3.3	4.4	5.6	3.9	4.0	92.0	2.0	2.1	2.4		
Chmura Economics & Analytics	1.3	4.3	1.5	1.3	1.1	1.4	1.6	1.9	2.7	3.3	4.0	4.9	na	na	4.9	87.6 L	2.4	1.9	1.9		
MacroFin Analytics	1.3	4.4	1.6	1.3	1.2	1.3	1.5	1.7	2.3	2.8	3.6	4.6	5.7	4.2	4.5	94.0	2.3	2.0	2.0		
UBS AG	1.3	na	1.9	na	1.5	na	na	na	na	2.2	na	na	na	na	na	na	3.0	2.3	2.0		
Daiwa Capital Markets America	1.3	4.4	1.6	1.3	1.2	1.4	1.5	1.7	2.0	2.3	3.1	4.0	5.0	3.8	4.2	92.0	2.2	1.9	2.2		
High Frequency Economics	1.3	4.4	na	na	1.2	1.4	1.5	1.6	2.1	2.6	3.3	na	na	na	na	na	2.3	2.7	2.7		
Swiss Re	1.3	4.3	1.5	1.2	1.1	1.2	1.5	1.8	2.0	2.5	3.5	4.3	5.3	na	4.3	na	2.0	3.2	4.2 H		
Standard & Poor's Corp.	1.2	4.0	1.3	na	0.9	1.1	1.3	1.6	2.1	2.7	3.4	4.1	5.3	na	4.7	94.3	2.5	2.4	2.8		
Natl Assn. of Realtors	1.2	4.3	1.4	1.3	1.3	1.4	1.6	1.8	2.3	2.7	3.3	4.4	5.5	4.0	4.4	na	2.1	2.0	2.1		
Chase Wealth Management	1.2	4.2	1.5	1.2	1.1	1.2	1.4	1.7	2.2	2.7	3.6	4.6	5.8	4.2	4.3	91.4	2.2	2.0	2.3		
The Northern Trust Company	1.2	4.3	1.3	1.2	1.0	1.2	1.4	1.7	2.4	2.8	3.6	4.3	5.4	4.1	4.4	na	2.2	2.0	2.1		
SunTrust Banks	1.2	4.2	2.0	1.6	1.0	1.1	1.2	1.3	1.7	2.1	2.9	5.1	6.7 H	3.9	5.1	na	3.0	1.9	2.2		
Woodworth Holdings	1.2	4.3	1.3	1.1	1.1	1.2	1.4	1.6	2.2	2.8	3.5	4.6	5.7	4.1	4.5	91.5	2.5	1.2 L	1.3 L		
DS Economics	1.2	4.2	1.2	1.1	1.0	1.3	1.7	1.9	2.4	2.9	3.6	3.9	5.0	3.9	4.4	96.0	2.3	2.1	1.8		
AIG	1.2	na	na	na	1.3	na	na	2.1	na	2.8	na	na	6.0	na	4.3	na	2.1	2.0	2.2		
Oxford Economics	1.1	4.0	na	na	1.1	1.3	1.4	1.6	2.0	2.5	3.1	na	na	na	4.4	93.3	2.2	2.5	2.3		
Moody's Capital Markets Group	1.1	4.1	1.4	1.2	1.1	1.2	1.2	1.2	1.7	2.1	2.7	3.8	4.8	3.6	3.9	92.3	2.1	2.0	1.7		
RBC	1.1	na	na	na	1.0	na	na	1.5	2.2	2.9	3.6	na	na	na	na	na	2.7	3.6 H	2.1		
RidgeWorth Investments	1.1	4.3	1.5	1.2	1.0	1.1	1.3	1.5	2.2	3.0	3.8	4.7	5.9	4.8 H	4.8	92.0	2.5	2.2	2.2		
Stone Harbor Investment Partners	1.1	4.3	1.3	1.1	1.1	1.3	1.4	1.5	2.2	2.5	3.2	4.0	5.0	na	3.9	92.0	2.7	1.8	2.5		
Regions Financial Corporation	1.0	4.0	1.3	1.1	1.0	1.1	1.2	1.5	1.9	2.4	3.3	4.1	5.1	na	4.1	91.6	2.1	1.8	2.1		
Societe Generale	1.0	4.0	1.3	na	na	na	na	1.3	1.9	2.4	3.1	na	na	na	na	na	2.3	2.1	2.1		
Goldman Sachs & Co.	1.0	na	1.3	na	0.9	na	na	1.4	2.0	2.6	2.9	na	na	na	4.8	na	2.0	2.0	2.3		
Action Economics	1.0	4.1	1.1	1.0	1.0	1.1	1.2	1.5	2.0	2.5	3.2	4.1	5.4	3.6	4.1	na	2.3	2.6	2.1		
BMO Capital Markets	1.0	4.1	1.2	na	0.9	1.0	1.2	1.4	1.8	2.3	3.0	na	na	na	4.0	93.7	2.4	2.0	2.3		
RBS Securities	0.9	4.1	1.3	1.0	1.0	1.1	1.3	1.8	2.1	2.5	3.2	4.2	5.4	3.9	4.3	94.0	2.7	1.9	2.9		
Wells Fargo	0.9	3.9	1.1	1.0	0.9	1.0	1.1	1.5	1.8	2.2	2.9	4.0	5.1	3.6	4.0	93.3	2.0	2.1	2.2		
Fannie Mae	0.9	4.0	na	na	1.0	1.1	1.1	1.2	1.7	2.0	2.8	na	na	na	3.8	na	1.7	1.9	1.8		
Nomura Securities, Inc.	0.9	3.9	1.2	na	na	na	na	1.3	1.8	2.3	2.7	4.2	5.3	na	4.2	na	2.0	1.6	2.1		
Barclays Capital	0.9	4.0	na	na	na	na	na	na	na	na	na	na	na	na	na	na	2.5	2.2	3.1		
Wells Capital Management	0.9	4.0	1.1	1.0	0.9	1.0	1.4	1.6	1.8	2.4	3.3	4.5	5.5	4.5	4.1	91.4	2.8	2.2	2.0		
Loomis, Sayles & Company	0.7	3.7	0.9 L	0.7 L	0.6	0.7	0.9	1.3	1.5	1.8	2.5 L	3.4 L	4.6 L	2.8 L	3.4 L	88.3	2.0	2.4	2.8		
Comerica Bank	0.7	na	0.9 L	na	0.5 L	0.7	0.8	1.1	1.5	2.0	2.8	na	na	na	3.8	na	2.5	1.8	2.0		
PNC Financial Services Corp.	0.7	3.8	1.0	na	0.7	0.7	0.9	1.2	1.7	2.3	2.9	na	5.0	3.4	3.9	91.8	2.2	2.0	2.3		
Georgia State University	0.6	3.6 L	na	na	0.6	0.6 L	0.6 L	0.9 L	1.7	2.5	3.1	4.4	5.5	na	4.3	na	2.9	2.1	2.9		
BNP Paribas Americas	0.4 L	na	1.0	na	na	na	na	1.0	1.3 L	1.7 L	na	na	na	na	na	na	1.5 L	na	1.8		
<b>June Consensus</b>	<b>1.1</b>	<b>4.2</b>	<b>1.4</b>	<b>1.3</b>	<b>1.1</b>	<b>1.2</b>	<b>1.4</b>	<b>1.6</b>	<b>2.1</b>	<b>2.6</b>	<b>3.3</b>	<b>4.4</b>	<b>5.5</b>	<b>4.0</b>	<b>4.4</b>	<b>92.3</b>	<b>2.4</b>	<b>2.2</b>	<b>2.4</b>		
Top 10 Avg.	1.5	4.5	1.8	1.5	1.5	1.6	1.8	2.1	2.6	3.2	3.8	4.9	6.1	4.4	4.9	94.5	2.9	2.7	3.2		
Bottom 10 Avg.	0.7	3.9	1.1	1.0	0.8	0.9	1.0	1.2	1.6	2.0	2.8	4.0	5.0	3.6	3.9	90.2	1.9	1.8	1.8		
May Consensus	1.2	4.3	1.5	1.3	1.2	1.3	1.5	1.7	2.2	2.7	3.4	4.5	5.6	4.1	4.5	92.0	2.4	2.1	2.4		
<b>Number of Forecasts Changed From A Month Ago:</b>																					
Down	16	16	17	14	19	20	21	25	24	23	22	16	20	12	22	10	14	10	13		
Same	26	19	12	12	15	11	12	14	16	15	11	6	7	8	12	9	24	23	25		
Up	5	4	8	2	7	5	3	4	2	6	8	8	4	3	4	7	9	12	9		
Diffusion Index	38 %	35 %	38 %	29 %	35 %	29 %	25 %	26 %	24 %	31 %	33 %	37 %	24 %	30 %	26 %	44 %	45 %	52 %	46 %		

### Third Quarter 2017 Interest Rate Forecasts

### Key Assumptions

Blue Chip Financial Forecasts Panel Members	-----Percent Per Annum -- Average For Quarter-----															Avg. For ---Qtr.---	------(Q-Q % Change)-----			
	-----Short-Term-----					-----Intermediate-Term-----					-----Long-Term-----						Fed's Major Currency \$ Index	B. Real GDP	C. Price Index	D. Cons. Price Index
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15					
	Federal Funds Rate	Prime Bank Rate	LIBOR Rate 3-Mo.	Com. Paper 1-Mo.	Treas. Bills 3-Mo.	Treas. Bills 6-Mo.	Treas. Bills 1-Yr.	Treas. Notes 2-Yr.	Treas. Notes 5-Yr.	Treas. Notes 10-Yr.	Treas. Bonds 30-Yr.	Aaa Corp. Bond	Baa Corp. Bond	State & Local Bonds	Home Mtg. Rate					
Moody's Analytics	2.2 H	5.3 H	2.4 H	2.1	1.6	1.7	2.3	2.4	3.1	3.7	4.4	5.3	6.9 H	4.2	5.3	na	3.0	2.3	2.6	
RDQ	2.1	5.1	2.4 H	2.2 H	2.2 H	2.4	2.6	2.7	3.1	3.5	3.9	5.0	6.0	4.7	5.1	99.4 H	1.7	2.3	2.7	
Naroff Economic Advisors	2.0	5.0	2.4 H	2.1	2.2 H	2.5 H	2.7 H	3.0 H	3.6 H	4.3 H	4.7 H	5.2	6.1	4.3	5.9 H	86.5	1.8	2.8 H	2.8	
Scotiabank Group	1.8	4.8	na	na	1.8	na	na	2.5	2.8	3.0	3.6	na	na	na	na	na	2.2	2.0	2.3	
MacroFin Analytics	1.7	4.8	2.0	1.7	1.6	1.7	1.9	2.1	2.7	3.2	4.0	5.0	6.1	4.6	4.9	94.5	2.2	2.0	2.1	
Amherst Pierpont Securities	1.7	4.8	2.1	1.7	1.7	2.0	2.3	2.5	3.0	3.5	4.4	5.5 H	6.7	4.7	5.2	97.0	2.7	2.3	3.4 H	
J.P. Morgan Chase	1.6	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	1.5 L	2.0	2.5	
DePrince & Assoc.	1.6	4.6	2.1	1.9	1.7	1.8	2.1	2.5	2.8	3.3	3.6	5.1	6.0	4.7	5.1	91.0	2.7	2.3	2.6	
Economist Intelligence Unit	1.6	4.6	1.8	1.5	1.5	1.6	1.7	2.0	2.4	2.9	3.7	na	na	na	4.6	na	2.8	na	2.2	
MJFG Union Bank	1.6	4.8	1.9	1.7	1.6	1.9	2.1	2.3	2.5	2.9	3.3	4.7	5.9	4.0	4.7	89.0	2.3	1.8	2.3	
GLC Financial Economics	1.6	4.6	1.8	1.6	1.5	1.6	1.6	1.9	2.7	3.3	4.0	5.3	6.5	4.7	5.6	91.6	3.0	2.6	2.8	
RidgeWorth Investments	1.5	4.6	1.9	1.6	1.4	1.5	1.7	1.9	2.7	3.5	4.3	5.1	6.3	5.2 H	5.2	91.0	2.5	2.2	2.2	
UBS AG	1.5	na	2.1	na	1.8	na	na	na	na	2.2	na	na	na	na	na	na	2.6	2.3	2.2	
Chmura Economics & Analytics	1.5	4.5	1.8	1.5	1.3	1.6	1.9	2.2	3.0	3.5	4.3	5.1	na	na	5.1	85.9 L	3.1	2.2	2.3	
Swiss Re	1.5	4.5	1.7	1.4	1.3	1.4	1.6	1.9	2.2	2.7	3.6	4.5	5.5	na	4.6	na	1.9	1.4 L	2.4	
High Frequency Economics	1.5	4.6	na	na	1.5	1.6	1.6	1.5	2.1	2.7	3.4	na	na	na	na	na	2.3	2.8 H	2.8	
Standard & Poor's Corp.	1.5	4.1	1.6	na	1.2	1.4	1.6	1.8	2.3	2.8	3.5	4.3	5.5	na	4.8	93.8	3.1	2.4	2.0	
The Northern Trust Company	1.4	4.6	1.6	1.4	1.3	1.4	1.6	2.0	2.6	3.1	3.9	4.6	5.7	4.4	4.7	na	2.2	2.1	2.2	
DS Economics	1.4	4.4	1.5	1.4	1.2	1.5	1.9	2.1	2.7	3.0	3.7	4.0	5.1	4.1	4.6	94.0	2.1	2.3	2.0	
Nat'l Assn. of Realtors	1.4	4.5	1.6	1.5	1.5	1.7	1.9	2.1	2.6	2.9	3.5	4.6	5.7	4.2	4.6	na	2.0	2.0	2.1	
Chase Wealth Management	1.4	4.4	1.7	1.4	1.3	1.4	1.6	1.9	2.4	2.9	3.8	4.8	6.0	4.4	4.5	91.2	2.3	2.1	2.2	
AIG	1.4	na	na	na	1.5	na	na	2.4	na	2.9	na	na	6.0	na	4.4	na	2.3	2.1	2.2	
Daiwa Capital Markets America	1.4	4.5	1.7	1.4	1.3	1.5	1.6	1.9	2.2	2.4	3.1	4.0	5.0	3.8	4.2	92.0	2.3	2.0	2.3	
RBC	1.4	na	na	na	1.3	na	na	1.8	2.5	3.1	3.7	na	na	na	na	na	2.7	1.9	1.9	
Stone Harbor Investment Partners	1.4	4.5	1.5	1.4	1.3	1.4	1.6	1.7	2.3	2.6	3.3	4.2	5.2	na	4.1	94.0	2.0	2.0	2.3	
Cycledata Corp.	1.3	4.5	1.5	1.3	1.2	1.3	1.4	1.6	2.1	2.6	3.3	4.4	5.6	3.9	4.0	92.0	1.9	2.1	2.4	
Regions Financial Corporation	1.3	4.3	1.5	1.4	1.2	1.3	1.4	1.7	2.1	2.6	3.4	4.1	5.2	na	4.2	91.3	2.0	1.7	2.3	
SunTrust Banks	1.3	4.3	2.4 H	2.1	1.1	1.2	1.3	1.4	1.8	2.1	2.9	5.3	6.9 H	3.9	5.3	na	3.2 H	2.1	2.5	
Societe Generale	1.3	4.3	1.6	na	na	na	na	1.4	1.9	2.5	3.2	na	na	na	na	na	2.3	2.2	2.6	
Goldman Sachs & Co.	1.3	na	1.5	na	1.2	na	na	1.7	2.2	2.7	2.9	na	na	na	4.9	na	2.0	1.9	2.3	
Wells Fargo	1.2	4.2	1.4	1.3	1.2	1.3	1.4	1.7	1.9	2.3	2.9	4.1	5.2	3.7	4.1	94.5	2.2	2.1	2.3	
RBS Securities	1.2	4.3	1.6	1.2	1.2	1.4	1.5	1.9	2.2	2.7	3.2	4.4	5.6	3.9	4.4	95.0	2.7	1.7	2.4	
Oxford Economics	1.2	4.0	na	na	1.1	1.3	1.4	1.6	2.1	2.6	3.3	na	na	na	4.5	93.9	2.5	2.5	1.8	
Woodworth Holdings	1.2	4.3	1.3	1.1	1.1	1.2	1.4	1.6	2.2	2.8	3.5	4.6	5.7	4.1	4.5	92.0	2.5	1.4 L	1.5	
Nomura Securities, Inc.	1.1	4.1	1.4	na	na	na	na	1.0 L	1.5	2.0	2.4 L	4.0	5.0	na	4.0	na	1.9	1.6	2.1	
Action Economics	1.1	4.3	1.3	1.2	1.1	1.2	1.4	1.6	2.1	2.5	3.3	4.2	5.5	3.6	4.2	na	2.3	1.7	2.2	
BMO Capital Markets	1.1	4.3	1.4	na	1.0	1.1	1.3	1.6	1.9	2.3	3.0	na	na	na	4.1	93.0	2.1	2.0	2.2	
Moody's Capital Markets Group	1.1	4.1	1.4	1.1	1.1	1.2	1.1	1.1	1.6	2.0	2.5	3.7	5.0	3.4	3.8	92.2	1.8	2.0	1.4 L	
Barclays Capital	1.1	4.3	na	na	na	na	na	na	na	na	na	na	na	na	na	na	2.5	2.3	2.3	
Wells Capital Management	1.0	4.1	1.2	1.1	1.0	1.1	1.4	1.6	1.8	2.4	3.4	4.6	5.7	4.6	4.1	91.5	2.5	2.2	2.1	
Comerica Bank	0.9	na	1.2	na	0.8	0.9	1.1	1.3	1.7	2.2	3.1	na	na	na	4.0	na	2.4	1.8	2.0	
Fannie Mae	0.9	4.0	na	na	1.1	1.1	1.2	1.3	1.8	2.1	2.8	na	na	na	3.8	na	1.8	2.0	2.0	
Loomis, Sayles & Company	0.9	3.9	1.0 L	0.9 L	0.8	0.9	1.0	1.3	1.5	1.8	2.5	3.4 L	4.5 L	2.7 L	3.4 L	88.3	1.9	2.1	2.2	
PNC Financial Services Corp.	0.9	4.0	1.2	na	0.9	0.9	1.0	1.4	1.8	2.3	2.9	na	5.1	3.3	4.0	92.0	2.2	2.0	2.3	
Georgia State University	0.7	3.7 L	na	na	0.7 L	0.7 L	0.7 L	1.1	1.8	2.6	3.2	4.5	5.6	na	4.4	na	2.5	2.1	3.3	
BNP Paribas Americas	0.4 L	na	1.0 L	na	na	na	na	1.1	1.4 L	1.7 L	na	na	na	na	na	na	1.6	na	2.3	
<b>June Consensus</b>	<b>1.3</b>	<b>4.4</b>	<b>1.7</b>	<b>1.5</b>	<b>1.3</b>	<b>1.4</b>	<b>1.6</b>	<b>1.8</b>	<b>2.3</b>	<b>2.7</b>	<b>3.4</b>	<b>4.6</b>	<b>5.7</b>	<b>4.1</b>	<b>4.5</b>	<b>92.3</b>	<b>2.3</b>	<b>2.1</b>	<b>2.3</b>	
Top 10 Avg.	1.8	4.8	2.2	1.9	1.8	1.9	2.2	2.5	2.9	3.5	4.1	5.2	6.3	4.6	5.3	94.9	2.9	2.5	2.8	
Bottom 10 Avg.	0.9	4.0	1.2	1.2	1.0	1.0	1.1	1.2	1.7	2.1	2.8	4.0	5.1	3.6	3.9	89.7	1.8	1.7	1.9	
May Consensus	1.5	4.5	1.8	1.6	1.4	1.6	1.7	1.9	2.4	2.8	3.5	4.6	5.8	4.2	4.7	91.9	2.3	2.0	2.3	
<b>Number of Forecasts Changed From A Month Ago:</b>																				
Down	19	21	22	15	21	20	21	26	25	23	23	16	20	10	24	10	6	5	9	
Same	24	17	9	12	14	9	10	14	15	17	11	7	6	7	12	7	34	27	29	
Up	3	1	6	1	6	7	5	3	2	4	7	7	5	4	2	8	6	12	8	
Diffusion Index	33 %	24 %	28 %	25 %	32 %	32 %	28 %	23 %	23 %	28 %	30 %	35 %	26 %	36 %	21 %	46 %	50 %	58 %	49 %	

International Interest Rate And Foreign Exchange Rate Forecasts

Blue Chip Forecasters	3 Mo. Interest Rate %		
	In 3 Mo.	In 6 Mo.	In 12 Mo.
Barclays	na	na	na
BMO Capital Markets	0.90	0.90	1.10
BNP Paribas Americas	na	na	na
ING Financial Markets	0.90	0.85	1.05
Mizuho Research Institute	0.65	0.65	0.85
Moody's Analytics	0.92	1.07	1.97
Moody's Capital Markets	na	na	na
Nomura Securities	na	na	na
Oxford Economics	na	na	na
Scotiabank	na	na	na
UBS AG	na	na	na
Wells Fargo	0.95	1.20	1.45
<b>June Consensus</b>	<b>0.86</b>	<b>0.93</b>	<b>1.28</b>
High	0.95	1.20	1.97
Low	0.65	0.65	0.85
Last Months Avg.	0.79	0.83	1.16

Blue Chip Forecasters	3 Mo. Interest Rate %		
	In 3 Mo.	In 6 Mo.	In 12 Mo.
Barclays	na	na	na
BMO Capital Markets	0.00	0.00	0.00
BNP Paribas Americas	na	na	na
ING Financial Markets	0.04	0.02	0.05
Mizuho Research Institute	0.06	0.06	0.06
Moody's Analytics	na	na	na
Moody's Capital Markets	na	na	na
Nomura Securities	na	na	na
Oxford Economics	na	na	na
Scotiabank	na	na	na
UBS AG	na	na	na
Wells Fargo	-0.05	-0.10	-0.10
<b>June Consensus</b>	<b>-0.01</b>	<b>-0.01</b>	<b>0.00</b>
High	0.06	0.06	0.06
Low	-0.05	-0.10	-0.10
Last Months Avg.	0.03	0.00	-0.01

Blue Chip Forecasters	3 Mo. Interest Rate %		
	In 3 Mo.	In 6 Mo.	In 12 Mo.
Barclays	na	na	na
BMO Capital Markets	0.65	0.75	1.00
BNP Paribas Americas	na	na	na
ING Financial Markets	0.60	0.65	1.10
Mizuho Research Institute	0.60	0.60	0.60
Moody's Analytics	na	na	na
Moody's Capital Markets	na	na	na
Nomura Securities	na	na	na
Oxford Economics	na	na	na
Scotiabank	na	na	na
UBS AG	na	na	na
Wells Fargo	0.58	0.65	0.95
<b>June Consensus</b>	<b>0.61</b>	<b>0.66</b>	<b>0.91</b>
High	0.65	0.75	1.10
Low	0.58	0.60	0.60
Last Months Avg.	0.61	0.66	0.99

Blue Chip Forecasters	3 Mo. Interest Rate %		
	In 3 Mo.	In 6 Mo.	In 12 Mo.
Barclays	na	na	na
BMO Capital Markets	na	na	na
BNP Paribas Americas	na	na	na
ING Financial Markets	-0.85	-0.85	0.85
Mizuho Research Institute	na	na	na
Moody's Analytics	na	na	na
Moody's Capital Markets	na	na	na
Nomura Securities	na	na	na
Oxford Economics	na	na	na
Scotiabank	na	na	na
UBS AG	na	na	na
Wells Fargo	na	na	na
<b>June Consensus</b>	<b>-0.85</b>	<b>-0.85</b>	<b>0.85</b>
High	-0.85	-0.85	0.85
Low	-0.85	-0.85	0.85
Last Months Avg.	-0.75	-0.90	-0.90

Blue Chip Forecasters	3 Mo. Interest Rate %		
	In 3 Mo.	In 6 Mo.	In 12 Mo.
Barclays	na	na	na
BMO Capital Markets	na	na	na
BNP Paribas Americas	na	na	na
ING Financial Markets	0.50	0.50	0.70
Mizuho Research Institute	na	na	na
Moody's Analytics	na	na	na
Moody's Capital Markets	na	na	na
Nomura Securities	na	na	na
Oxford Economics	na	na	na
Scotiabank	na	na	na
UBS AG	na	na	na
Wells Fargo	0.90	0.95	1.25
<b>June Consensus</b>	<b>0.70</b>	<b>0.73</b>	<b>0.98</b>
High	0.90	0.95	1.25
Low	0.50	0.50	0.70
Last Months Avg.	0.75	0.70	0.80

United States			
10 Yr. Gov't Bond Yield %			
In 3 Mo.	In 6 Mo.	In 12 Mo.	
2.00	2.00	na	
1.95	2.05	2.25	
na	na	na	
2.00	2.10	2.30	
1.80	1.85	2.00	
2.49	2.79	3.55	
2.00	2.10	2.10	
2.00	2.00	2.25	
2.12	2.24	2.46	
2.15	2.25	2.80	
1.96	2.00	2.15	
1.95	2.02	2.22	
<b>2.04</b>	<b>2.13</b>	<b>2.43</b>	
2.49	2.79	3.55	
1.80	1.85	2.00	
2.01	2.13	2.38	

Japan			
10 Yr. Gov't Bond Yield %			
In 3 Mo.	In 6 Mo.	In 12 Mo.	
-0.10	-0.05	na	
-0.10	0.00	0.10	
na	na	na	
-0.07	-0.02	0.05	
-0.10	-0.10	-0.10	
0.01	0.01	0.02	
-0.05	0.05	0.25	
-0.15	-0.15	-0.15	
-0.08	-0.08	-0.03	
na	na	na	
0.17	0.20	0.25	
-0.10	-0.08	-0.02	
<b>-0.06</b>	<b>-0.02</b>	<b>0.04</b>	
0.17	0.20	0.25	
-0.15	-0.15	-0.15	
-0.10	-0.03	0.04	

United Kingdom			
10 Yr. Gilt Yields %			
In 3 Mo.	In 6 Mo.	In 12 Mo.	
1.75	1.75	na	
1.55	1.80	2.00	
na	na	na	
1.70	2.00	2.30	
1.50	1.60	1.70	
2.05	2.34	2.84	
1.65	1.75	1.80	
1.90	2.10	na	
1.81	2.00	2.29	
na	na	na	
1.70	1.80	1.90	
1.50	1.55	1.75	
<b>1.71</b>	<b>1.87</b>	<b>2.07</b>	
2.05	2.34	2.84	
1.50	1.55	1.70	
1.69	1.85	2.11	

Switzerland			
10 Yr. Gov't Bond Yield %			
In 3 Mo.	In 6 Mo.	In 12 Mo.	
na	na	na	
na	na	na	
na	na	na	
-0.30	0.00	0.30	
na	na	na	
-0.35	-0.32	0.20	
-0.25	-0.15	-0.05	
na	na	na	
-0.20	-0.15	0.19	
na	na	na	
-0.05	0.15	0.30	
na	na	na	
<b>-0.23</b>	<b>-0.09</b>	<b>0.19</b>	
-0.05	0.15	0.30	
-0.35	-0.32	-0.05	
-0.27	-0.17	0.08	

Canada			
10 Yr. Gov't Bond Yield %			
In 3 Mo.	In 6 Mo.	In 12 Mo.	
na	na	na	
1.40	1.50	1.55	
na	na	na	
1.30	1.40	1.90	
na	na	na	
2.17	2.51	3.32	
1.50	1.65	1.75	
1.40	1.55	1.75	
1.39	1.47	1.63	
1.55	1.65	2.15	
na	na	na	
1.40	1.50	1.75	
<b>1.51</b>	<b>1.65</b>	<b>1.98</b>	
2.17	2.51	3.32	
1.30	1.40	1.55	
1.45	1.55	1.86	

Fed's Major Currency \$ Index			
In 3 Mo.	In 6 Mo.	In 12 Mo.	
na	na	na	
94.9	96.5	96.0	
na	na	na	
88.9	87.5	85.0	
92.0	89.0	91.0	
na	na	na	
91.0	91.5	92.3	
na	na	na	
91.3	92.2	93.3	
na	na	na	
88.3	90.0	93.3	
<b>91.1</b>	<b>91.1</b>	<b>91.8</b>	
94.9	96.5	96.0	
88.3	87.5	85.0	
92.4	92.4	92.5	

Yen/USD			
In 3 Mo.	In 6 Mo.	In 12 Mo.	
100.0	100.0	na	
111.0	116.0	116.0	
108.0	112.0	116.0	
95.0	100.0	108.0	
105.0	106.0	109.0	
111.0	114.0	115.0	
112.0	115.0	118.0	
120.0	122.0	na	
110.0	114.0	118.0	
115.0	118.0	120.0	
na	na	na	
na	na	na	
<b>108.7</b>	<b>111.7</b>	<b>115.0</b>	
120.0	122.0	120.0	
95.0	100.0	108.0	
112.3	113.5	116.9	

USD/Pound Sterling			
In 3 Mo.	In 6 Mo.	In 12 Mo.	
1.45	1.45	na	
1.42	1.44	1.49	
1.51	1.56	1.57	
1.51	1.55	1.56	
na	na	na	
1.47	1.49	1.51	
1.42	1.42	1.43	
1.47	1.50	na	
1.41	1.43	1.44	
1.40	1.40	1.45	
na	na	na	
na	na	na	
<b>1.45</b>	<b>1.47</b>	<b>1.49</b>	
1.51	1.56	1.57	
1.40	1.40	1.43	
1.42	1.45	1.49	

CHF/USD			
In 3 Mo.	In 6 Mo.	In 12 Mo.	
1.07	1.11	na	
1.00	1.03	1.06	
0.98	1.00	1.08	
0.96	0.97	0.96	
na	na	na	
1.03	1.06	1.11	
1.00	1.00	1.00	
1.05	1.08	na	
1.00	1.01	1.03	
1.05	1.08	1.06	
na	na	na	
na	na	na	
<b>1.02</b>	<b>1.04</b>	<b>1.04</b>	
1.07	1.11	1.11	
0.96	0.97	0.96	
1.01	1.04	1.05	

CAD/USD			
In 3 Mo.	In 6 Mo.	In 12 Mo.	
1.38	1.40	na	
1.32	1.31	1.29	
1.35	1.41	1.39	
1.38	1.30	1.23	
na	na	na	
1.35	1.32	1.27	
1.32	1.30	1.28	
1.38	1.35	na	
1.31	1.30	1.30	
1.30	1.30	1.28	
na	na	na	
na	na	na	
<b>1.34</b>	<b>1.33</b>	<b>1.29</b>	
1.38	1.41	1.39	
1.30	1.30	1.23	
1.35	1.34	1.30	

## International Interest Rate And Foreign Exchange Rate Forecasts

Blue Chip Forecasters	3 Mo. Interest Rate %		
	In 3 Mo.	In 6 Mo.	In 12 Mo.
Barclays	na	na	na
BMO Capital Markets	na	na	na
BNP Paribas Americas	na	na	na
ING Financial Markets	1.60	1.60	1.70
Mizuho Research Institute	na	na	na
Moody's Analytics	na	na	na
Moody's Capital Markets	na	na	na
Nomura Securities	na	na	na
Oxford Economics	na	na	na
Scotiabank	na	na	na
UBS AG	na	na	na
Wells Fargo	na	na	na
<b>June Consensus</b>	<b>1.60</b>	<b>1.60</b>	<b>1.70</b>
High	1.60	1.60	1.70
Low	1.60	1.60	1.70
Last Months Avg.	2.20	2.20	2.30

Australia		
10 Yr. Gov't Bond Yield %		
In 3 Mo.	In 6 Mo.	In 12 Mo.
na	na	na
na	na	na
na	na	na
2.50	2.80	3.00
na	na	na
2.77	2.77	3.18
2.43	2.50	2.47
2.50	2.75	2.85
2.04	2.18	2.44
na	na	na
2.20	2.30	2.35
na	na	na
<b>2.41</b>	<b>2.55</b>	<b>2.72</b>
2.77	2.80	3.18
2.04	2.18	2.35
2.66	2.73	2.91

USD/AUD		
In 3 Mo.	In 6 Mo.	In 12 Mo.
0.69	0.68	na
0.71	0.72	0.74
0.73	0.69	0.67
0.69	0.75	0.82
na	na	na
0.75	0.76	0.77
0.72	0.71	0.70
0.68	0.67	na
0.72	0.70	0.71
0.70	0.70	0.72
na	na	na
na	na	na
<b>0.71</b>	<b>0.71</b>	<b>0.73</b>
0.75	0.76	0.82
0.68	0.67	0.67
0.72	0.71	0.73

Blue Chip Forecasters	3 Mo. Interest Rate %		
	In 3 Mo.	In 6 Mo.	In 12 Mo.
Barclays	na	na	na
BMO Capital Markets	-0.25	-0.25	-0.25
BNP Paribas Americas	na	na	na
ING Financial Markets	-0.27	-0.28	-0.28
Mizuho Research Institute	-0.30	-0.30	-0.30
Moody's Analytics	na	na	na
Moody's Capital Markets	na	na	na
Nomura Securities	-0.25	-0.25	-0.25
Oxford Economics	na	na	na
Scotiabank	na	na	na
UBS AG	na	na	na
Wells Fargo	-0.30	-0.30	-0.25
<b>June Consensus</b>	<b>-0.27</b>	<b>-0.28</b>	<b>-0.27</b>
High	-0.25	-0.25	-0.25
Low	-0.30	-0.30	-0.30
Last Months Avg.	-0.27	-0.27	-0.28

## Eurozone

USD/EUR		
In 3 Mo.	In 6 Mo.	In 12 Mo.
1.06	1.03	na
1.09	1.05	1.05
na	na	na
1.15	1.15	1.20
1.18	1.17	1.15
1.06	1.04	1.00
1.09	1.08	1.07
1.07	1.05	na
1.10	1.09	1.07
1.05	1.02	1.05
na	na	na
na	na	na
<b>1.09</b>	<b>1.08</b>	<b>1.08</b>
1.18	1.17	1.20
1.05	1.02	1.00
1.09	1.08	1.08

Blue Chip Forecasters	10 Yr. Gov't Bond Yields %											
	Germany			France			Italy			Spain		
	In 3 Mo.	In 6 Mo.	In 12 Mo.	In 3 Mo.	In 6 Mo.	In 12 Mo.	In 3 Mo.	In 6 Mo.	In 12 Mo.	In 3 Mo.	In 6 Mo.	In 12 Mo.
Barclays	0.50	0.50	na	na	na	na	na	na	na	na	na	na
BMO Capital Markets	0.25	0.30	0.50	na	na	na	na	na	na	na	na	na
BNP Paribas Americas	0.30	0.00	na	0.60	0.30	na	1.45	1.25	na	1.55	1.35	na
ING Financial Markets	0.40	0.60	0.90	0.70	0.90	1.10	1.50	1.60	1.70	1.50	1.55	1.65
Mizuho Research Institute	0.10	0.20	0.25	na	na	na	na	na	na	na	na	na
Moody's Analytics	0.32	0.40	0.83	0.59	0.64	1.02	1.44	1.42	1.74	2.02	2.14	2.33
Moody's Capital Markets	0.40	0.55	0.63	0.75	0.90	0.95	1.65	1.78	1.84	1.75	1.90	1.95
Nomura Securities	0.40	0.40	0.50	na	na	na	na	na	na	na	na	na
Oxford Economics	0.36	0.43	0.74	0.66	0.75	1.09	1.49	1.58	1.93	1.60	1.69	2.01
UBS	0.80	1.10	1.30	1.10	1.35	1.50	1.90	2.00	2.18	na	na	na
Wells Fargo	0.20	0.25	0.40	na	na	na	na	na	na	na	na	na
<b>June Consensus</b>	<b>0.37</b>	<b>0.43</b>	<b>0.67</b>	<b>0.73</b>	<b>0.81</b>	<b>1.13</b>	<b>1.57</b>	<b>1.61</b>	<b>1.88</b>	<b>1.68</b>	<b>1.73</b>	<b>1.99</b>
High	0.80	1.10	1.30	1.10	1.35	1.50	1.90	2.00	2.18	2.02	2.14	2.33
Low	0.10	0.00	0.25	0.59	0.30	0.95	1.44	1.25	1.70	1.50	1.35	1.65
Last Months Avg.	0.34	0.39	0.63	0.68	0.74	1.08	1.52	1.55	1.82	1.60	1.65	1.91

	Consensus Forecasts			
	10-year Bond Yields vs U.S. Yield			
	Current	In 3 Mo.	In 6 Mo.	In 12 Mo.
Japan	-1.98	-2.10	-2.15	-2.38
United Kingdom	-0.31	-0.33	-0.26	-0.35
Switzerland	-2.14	-2.27	-2.22	-2.24
Canada	-0.49	-0.52	-0.47	-0.45
Australia	0.43	0.37	0.42	0.29
Germany	-1.72	-1.67	-1.70	-1.75
France	-1.38	-1.30	-1.32	-1.29
Italy	-0.52	-0.47	-0.52	-0.55
Spain	-0.34	-0.35	-0.40	-0.44

	Consensus Forecasts			
	3 Mo. Deposit Rates vs U.S. Rate			
	Current	In 3 Mo.	In 6 Mo.	In 12 Mo.
Japan	-0.69	-0.85	-0.93	-1.28
United Kingdom	-0.10	-0.26	-0.27	-0.37
Switzerland	-1.40	-1.71	-1.78	-0.43
Canada	0.18	-0.16	-0.21	-0.31
Australia	1.41	0.74	0.67	0.42
Eurozone	-0.93	-1.14	-1.21	-1.55

## Viewpoints:

### A Sampling of Views on the Economy, Financial Markets and Government Policy Excerpted from Recent Reports Issued by our Blue Chip Panel Members and Others

#### FOMC: Three Big “Ifs”

The minutes from the April meeting of the Federal Open Market Committee indicated that officials are inclined to increase interest rates again if certain conditions are met. Specifically, policymakers need to see a pickup in the pace of economic growth and continued improvement in the labor market. In addition, they need to be confident that inflation will return to the target of two percent in the medium term.

A review of recent developments shows that a case can be made for tighter policy in June, although the arguments are far from air-tight. We would not be surprised by a policy change in June, but we are more inclined to look for a shift at the meeting in late July. With the evidence likely to leave the Fed in a grey area, and with officials planning to move gradually, we look for the next step in normalization to be a hawkish statement in June that sets the stage for a rate hike in July.

The first criterion of the FOMC -- faster economic growth -- is moving in the right direction. Recent statistics suggest that GDP growth in the first quarter will be revised upward to approximately 1.0 percent versus the initial estimate of 0.5 percent. More important, available indicators for Q2 suggest a quickening from the revised pace of Q1 (chart). Our reading of the figures suggests an advance of approximately two percent, while the so-called GDPNow estimate of the Atlanta Fed shows stronger results (2.5 percent). A similar measure from the New York Fed suggests growth of 1.7 percent.

Growth in the neighborhood of two percent is respectable, but it is far from vigorous and thus does not suggest an urgency to raise interest rates. Moreover, we doubt that officials will expect a further acceleration in growth in the second half of the year. Forecasts of officials published in March showed expected growth in the low-two-percent area for the year, and we have not detected any shift in fundamentals that might boost expectations. In fact, as discussed below, we have been mildly disappointed in two areas that might have stirred economic activity (housing and business fixed investment).

Both the hawks and doves will be able to use recent developments in the labor market to support their cases. The hawks can cite generally steady job growth and hints of faster wage growth, while doves can point to the underwhelming payroll figures for April and an uptick in the unemployment rate in March (which was sustained in April). Thus, like the prospects for economic growth, the employment situation does not lead to a clear-cut conclusion on policy.

Headline and core inflation have accelerated since last fall, although the pace has eased somewhat in the past month or two (chart, above right). While some Fed officials might emphasize recent easing, we suspect that most policymakers will take a longer-term view and conclude that inflation is on a path back to two percent.

William Dudley of the New York Fed, an ardent dove, confirmed this view in a recent Q&A session on macroeconomic developments. He indicated that the recent easing in year-over-year inflation was most likely the result of random volatility and that the pickup since late 2015 was more meaningful. He noted that core inflation was generally stable in 2014 and much of 2015 when a strong dollar and soft oil prices might have pushed core inflation lower. With those forces now dissipating, underlying inflation was likely to pickup. He indicated that this experience had made him more confident that inflation would return to target over time. He also was more relaxed about possibly eroding inflation expectations.

*Michael Moran, Daiwa Capital Markets, New York, NY*

#### The Fed Puts June Back On the Table

The minutes from the April FOMC meeting clearly indicate that many members of the Federal Open Market Committee believe economic conditions are strong enough to warrant an interest rate hike well ahead of market expectations, and a hike at the June 14-15 meeting remains a real possibility. Market participants still believe such a move remains a relatively low probability, however, even after a string of stronger economic reports on Industrial Production and Retail Sales and a larger than expected increase in the Consumer Price Index. The market assigns about a 30 percent chance of a move in June, up from single digits last week, but now puts the odds of a July move at just over 50 percent.

Expectations for an earlier Fed move took off this week following this week's stronger economic reports and a string of hawkish comments from several Federal Reserve Bank presidents, including Dennis Lockhart, from the Atlanta Fed, and John Williams, from the San Francisco Fed. Both reiterated that a rate hike in June remains a real or live possibility. Economies in both regions are also notably stronger than the U.S. economy, and wage and price pressures, particularly in construction, are much more acute in both areas.

We doubt the Fed's timetable has changed all that much. While the Fed would like to raise interest rates in June, the upcoming Brexit vote will closely follow the Fed meeting and uncertainty about the outcome of that vote will likely be enough to keep the Fed on hold in June. The rhetoric will likely heat up further, however, particularly if first quarter growth is revised higher, as we expect.

Even if the timing of the Fed's next move gets pulled forward into June or, more likely, July, the ultimate magnitude of the Fed's future rate hikes is probably less than the Fed outlined in its previous dot plots. If the Fed is serious about avoiding surprises, then it not only needs to raise market expectations for a rate hike in the near term, but must also close the wide gap in expectations for the funds rate in 2017 and 2018. The market simply does not believe that many rate hikes are credible.

*Wells Fargo Economics Group, Charlotte, NC*

#### Next Fed Policy Move Will Come In July

The minutes of the April FOMC meeting were hawkish and reported that “Most participants judged that if incoming data were consistent with economic growth picking up in the second quarter, labor market conditions continuing to strengthen, and inflation making progress toward the Committee's 2 percent objective, then it likely would be appropriate for the Committee to increase the target range for the federal funds rate in June.”

We do not think that there will be enough data between now and the June 14-15 meeting to prompt a rate hike then. And the Brexit vote shortly thereafter may argue for delay in any case. But we think the Fed's conditions for a rate hike will be met and that the next Fed policy move will come in July.

The much stronger than expected April retail sales report should make the Fed more confident than they were at the April meeting that economic growth is picking up in the second quarter. We look for the May 27th second estimate of 1Q16 GDP to show 1.0% (saar) real GDP growth (revised up from 0.5%). And our tracking forecast for 2Q16 growth is 2.0%, with modest upside risk.

*Robert Mellman, JPMorgan Chase Bank, New York, NY*

#### Will They Or Won't They

The *Cliffs Notes* version of the minutes to the April FOMC meeting is that conditions are supportive of a hike in the Fed funds rate at either the June or July FOMC meetings, unless of course they're not. Yes, the minutes had a more hawkish tone than had been (*continued on next page*)

## Viewpoints

### A Sampling of Views on the Economy, Financial Markets and Government Policy Excerpted from Recent Reports Issued by our Blue Chip Panel Members and Others

been anticipated, and, yes, many FOMC members have used public appearances to reinforce the notion that the June FOMC meeting is indeed “live.” While all this talk seems to have rattled the markets a bit, there is still very much a “we’ll believe it when we see it” attitude on the part of many market participants – at present the bond market is pricing in only about a 28 percent chance of a hike in June. This is to a large degree understandable as the FOMC has basically been prepping the markets for a higher Fed funds rate since the start of last year only to deliver a single 25-basis point hike in the funds rate target range in all this time. As Roseanne Roseannadana would say, it just goes to show you, it’s always something – if it’s not the twists and turns in the economic data, it’s some global event that gives the FOMC cause to pause. Our sense is that this time they really mean it but, at the same time, the reality is that while the evolution of the U.S. economic data gives the FOMC the green light, structural headwinds at home and a still shaky global backdrop put clear limits on how far and how fast the FOMC can go.

*Richard F. Moody, Regions Financial Corp., Birmingham, AL*

#### June Or July?

Ah, the age-old tango between the Fed and markets continues. First, hawkish Fed chatter sets the market up for tighter policy; then investors tremble and the dollar rises; and ultimately policy makers get cold feet and delay tightening. This time-worn dance has played out frequently since the 2013 “taper tantrum”—when then-Chair Bernanke hinted at slowing the QE drip-line. (Wasn’t increased transparency supposed to reduce market volatility?) But this time, the Fed seems to be sticking to its guns. In a rare show of harmony, both dovish and hawkish officials are singing from the same hymn book, apparently in a concerted effort to align the market’s thinking (which, until recently, was summed up as: fat chance of even one move this year) with the Fed’s view (two moves are likely baked in the cake). Here’s what a few officials said this week to prime the markets for the real possibility of a June rate hike:

Dudley—June is “definitely a live meeting”. Lockhart—June should not be “taken off the table”. Williams—2 or 3 moves this year “makes sense”. Kaplan—Fed should raise rates “in not too distant future”

In fact, even at the time of the April policy meeting, the Fed saw a much greater chance of a hike than the market. According to the minutes, “many” members leaned toward a move at the next meeting if conditions were appropriate. And that was before seeing solid April data—industrial production and retail sales up 0.7% and 1.3%, respectively, existing home sales rising for a fourth time in five months, and housing starts up a crackling 6.6%.

The better data suggest the economy has picked up in the second quarter to an above potential rate (which, given scrawny productivity growth, is anything with at least a 2-handle). For the Fed, this points to more progress in labor markets, a key precondition for the second stage of rate lift-off. Pay close attention to the “all-in” unemployment rate in the May jobs report, which has been eking out steady progress this year despite slower payrolls growth and a steady official jobless rate. And, according to Dudley, also keep a close eye on U.K. polls, as rising support for Brexit could stay the Fed’s cautious hand. By contrast, a show of strength in the May indicators and a comfortable lead for the “stay” crowd could tip the odds toward June.

Despite all the Fed chatter, we remain in the July camp. You just need to read Chair Yellen’s March 29<sup>th</sup> speech to know that any material misstep in markets or the economy in coming weeks would likely weigh on the side of inaction. Investors in fed funds futures also remain skeptical of a June move, even if the odds have shot up from the low single-digits last week to 30%. Still, unless the market starts pricing in greater

odds, the Fed will likely worry about investors tripping on the dance floor if the music shifts too abruptly.

*Sal Guatieri, BMO Capital Markets, Toronto, Canada*

#### June, July Or September?

Some aspects of our Fed call seem fairly straightforward, others are more complicated. We have a strong conviction that Fed has been and will continue to be highly attuned to downside risks. Hence, they will hike very slowly, they will focus more on evolving risks than on their baseline forecast and they will stop moving on any sign of trouble. This suggests a very low probability of a Fed-induced recession and a high probability of overshooting the inflation target over the next several years. Indeed, we think they should and will overshoot by 2018.

The hard part is mapping this strategic story into a tactical view of the exact timing and pace of rate hikes. The Fed is not helping much. They want to avoid “calendar guidance” in favor of data dependence: the market is supposed to figure out when they will move based on the news flow. However, the Fed’s reaction function has been changing over time and is complicated. Like everyone else, we struggle to figure out the Fed’s time-varying weights on the labor market, GDP growth, inflation, global developments and financial conditions.

On May 6<sup>th</sup> we dropped our longstanding call for a June rate hike. This was partly in reaction to soft data, but mainly due to super-dovish Fed rhetoric, including commentary from Chair Yellen and two very dovish FOMC statements. Indeed, with the markets pricing in a roughly 5% probability of a June hike, our call was looking increasing out of touch. We moved the next hike to September, but noted that June and July remained live meetings.

Now the Fed minutes and a series of hawkish speakers have made it clear that the April statement was a head fake. It is now clear that June is very much on the table. What is less clear is whether the Fed is just protesting the super-low probability priced into the markets or is setting us up for a June hike. In other words, should we stick to our September call or flip flop?

We are sticking to September. In our view, the distribution of outcomes is very flat, but September still seems most consistent with Yellen’s high risk aversion. June seems a bit early given how dovish she has sounded. Moreover, with the market pricing in just a 34% chance of a move, it would shock the markets and bring into question their credibility. This would draw attention to the competence of the Fed during an election year. The Fed would also be moving in front of the Brexit vote, a potential serious shock to financial markets. What is the cost of waiting?

July is also live, but suffers the usual problem of not having a scheduled press conference. The Fed has made it clear that they can call a press conference on short notice. However, it would still require meticulous preparation from Yellen. In our view, avoiding that painful preparation is a key reason there are only four press conferences a year. A compromise would be for the Fed to repeat what it did in October and in the June statement highlight that July is a live meeting absent adverse developments.

This is a close call and we will be nimble going forward. Payrolls on June 2<sup>nd</sup> and a Yellen speech on June 6<sup>th</sup> could change our mind. In our view, the Fed will want the market to be pricing in at least a 50% probability before it moves and hawkish news from these events could do the trick. Regardless of the exact timing, we think the economy and inflation are a lot more resilient than the markets believe. Hence, the Fed is likely to hike more than what the bond market is pricing in over the next several years.

*Ethan Harris, Bank of America-Merrill Lynch, New York, NY*

## Long-Range Survey:

The table below contains results of our semi-annual long-range CONSENSUS survey. There are also Top 10 and bottom 10 averages for each variable. Shown are estimates for the years 2018 through 2022 and averages for the five-year periods 2018-2022 and 2023-2027. Apply these projections cautiously. Few economic, demographic and political forces can be evaluated accurately over such long time spans.

<b>Interest Rates</b>		-----Average For The Year-----					Five-Year Averages	
		<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2018-2022</u>	<u>2023-2027</u>
1. Federal Funds Rate	<b>CONSENSUS</b>	<b>2.2</b>	<b>2.7</b>	<b>3.0</b>	<b>3.2</b>	<b>3.2</b>	<b>2.9</b>	<b>3.2</b>
	Top 10 Average	3.1	3.6	3.8	3.9	3.9	3.7	3.8
	Bottom 10 Average	1.4	1.6	2.0	2.5	2.4	2.0	2.5
2. Prime Rate	<b>CONSENSUS</b>	<b>5.2</b>	<b>5.7</b>	<b>6.0</b>	<b>6.1</b>	<b>6.1</b>	<b>5.8</b>	<b>6.0</b>
	Top 10 Average	6.1	6.6	6.9	6.9	6.9	6.7	6.7
	Bottom 10 Average	4.4	4.7	5.1	5.4	5.3	5.0	5.4
3. LIBOR, 3-Mo.	<b>CONSENSUS</b>	<b>2.5</b>	<b>3.0</b>	<b>3.2</b>	<b>3.4</b>	<b>3.4</b>	<b>3.1</b>	<b>3.4</b>
	Top 10 Average	3.4	3.9	4.0	4.1	4.1	3.9	4.0
	Bottom 10 Average	1.7	1.9	2.3	2.8	2.7	2.3	2.7
4. Commercial Paper, 1-Mo.	<b>CONSENSUS</b>	<b>2.5</b>	<b>3.0</b>	<b>3.2</b>	<b>3.4</b>	<b>3.3</b>	<b>3.1</b>	<b>3.3</b>
	Top 10 Average	3.2	3.7	3.9	4.0	4.0	3.7	3.8
	Bottom 10 Average	1.8	2.2	2.6	2.8	2.6	2.4	2.7
5. Treasury Bill Yield, 3-Mo.	<b>CONSENSUS</b>	<b>2.2</b>	<b>2.7</b>	<b>2.9</b>	<b>3.1</b>	<b>3.1</b>	<b>2.8</b>	<b>3.1</b>
	Top 10 Average	3.0	3.6	3.8	3.8	3.8	3.6	3.7
	Bottom 10 Average	1.4	1.6	1.9	2.5	2.4	2.0	2.4
6. Treasury Bill Yield, 6-Mo.	<b>CONSENSUS</b>	<b>2.4</b>	<b>2.9</b>	<b>3.2</b>	<b>3.3</b>	<b>3.2</b>	<b>3.0</b>	<b>3.2</b>
	Top 10 Average	3.2	3.7	4.0	4.0	4.0	3.8	3.8
	Bottom 10 Average	1.6	1.9	2.4	2.6	2.5	2.2	2.6
7. Treasury Bill Yield, 1-Yr.	<b>CONSENSUS</b>	<b>2.5</b>	<b>3.0</b>	<b>3.2</b>	<b>3.4</b>	<b>3.3</b>	<b>3.1</b>	<b>3.3</b>
	Top 10 Average	3.4	4.0	4.0	4.1	4.1	3.9	4.0
	Bottom 10 Average	1.7	2.0	2.4	2.6	2.5	2.3	2.7
8. Treasury Note Yield, 2-Yr.	<b>CONSENSUS</b>	<b>2.7</b>	<b>3.1</b>	<b>3.4</b>	<b>3.6</b>	<b>3.5</b>	<b>3.3</b>	<b>3.5</b>
	Top 10 Average	3.6	4.1	4.3	4.3	4.3	4.1	4.2
	Bottom 10 Average	1.8	2.0	2.4	2.8	2.8	2.4	2.7
10. Treasury Note Yield, 5-Yr.	<b>CONSENSUS</b>	<b>3.0</b>	<b>3.4</b>	<b>3.6</b>	<b>3.8</b>	<b>3.8</b>	<b>3.5</b>	<b>3.8</b>
	Top 10 Average	3.9	4.3	4.5	4.6	4.6	4.4	4.5
	Bottom 10 Average	2.1	2.3	2.7	3.0	2.9	2.6	3.0
11. Treasury Note Yield, 10-Yr.	<b>CONSENSUS</b>	<b>3.3</b>	<b>3.7</b>	<b>3.9</b>	<b>4.1</b>	<b>4.0</b>	<b>3.8</b>	<b>4.1</b>
	Top 10 Average	4.2	4.6	4.8	4.8	4.8	4.6	4.8
	Bottom 10 Average	2.5	2.7	3.0	3.2	3.2	2.9	3.3
12. Treasury Bond Yield, 30-Yr.	<b>CONSENSUS</b>	<b>3.9</b>	<b>4.2</b>	<b>4.4</b>	<b>4.6</b>	<b>4.5</b>	<b>4.3</b>	<b>4.6</b>
	Top 10 Average	4.8	5.2	5.3	5.4	5.4	5.2	5.4
	Bottom 10 Average	3.1	3.3	3.5	3.7	3.6	3.4	3.8
13. Corporate Aaa Bond Yield	<b>CONSENSUS</b>	<b>5.1</b>	<b>5.4</b>	<b>5.5</b>	<b>5.5</b>	<b>5.5</b>	<b>5.4</b>	<b>5.6</b>
	Top 10 Average	5.7	6.2	6.3	6.3	6.3	6.2	6.3
	Bottom 10 Average	4.4	4.6	4.6	4.7	4.7	4.6	4.9
13. Corporate Baa Bond Yield	<b>CONSENSUS</b>	<b>6.1</b>	<b>6.4</b>	<b>6.5</b>	<b>6.5</b>	<b>6.5</b>	<b>6.4</b>	<b>6.6</b>
	Top 10 Average	6.7	7.2	7.3	7.3	7.3	7.1	7.3
	Bottom 10 Average	5.4	5.6	5.7	5.7	5.6	5.6	5.9
14. State & Local Bonds Yield	<b>CONSENSUS</b>	<b>4.4</b>	<b>4.6</b>	<b>4.7</b>	<b>4.7</b>	<b>4.7</b>	<b>4.7</b>	<b>4.8</b>
	Top 10 Average	5.2	5.5	5.6	5.6	5.6	5.5	5.6
	Bottom 10 Average	3.7	3.7	3.8	3.9	3.8	3.8	4.0
15. Home Mortgage Rate	<b>CONSENSUS</b>	<b>5.1</b>	<b>5.5</b>	<b>5.6</b>	<b>5.7</b>	<b>5.7</b>	<b>5.5</b>	<b>5.8</b>
	Top 10 Average	5.8	6.3	6.4	6.4	6.5	6.3	6.4
	Bottom 10 Average	4.3	4.6	4.8	4.9	4.8	4.7	5.0
A. FRB - Major Currency Index	<b>CONSENSUS</b>	<b>92.2</b>	<b>91.5</b>	<b>91.2</b>	<b>91.1</b>	<b>91.0</b>	<b>91.4</b>	<b>90.1</b>
	Top 10 Average	95.6	95.7	96.1	96.0	95.9	95.9	95.2
	Bottom 10 Average	88.8	87.2	86.1	86.0	85.9	86.8	85.0
		-----Year-Over-Year, % Change-----					Five-Year Averages	
		<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2018-2022</u>	<u>2023-2027</u>
B. Real GDP	<b>CONSENSUS</b>	<b>2.2</b>	<b>2.1</b>	<b>2.1</b>	<b>2.2</b>	<b>2.2</b>	<b>2.2</b>	<b>2.2</b>
	Top 10 Average	2.7	2.7	2.6	2.6	2.5	2.6	2.5
	Bottom 10 Average	1.7	1.6	1.6	1.8	1.8	1.7	1.9
C. GDP Chained Price Index	<b>CONSENSUS</b>	<b>2.1</b>	<b>2.1</b>	<b>2.1</b>	<b>2.1</b>	<b>2.1</b>	<b>2.1</b>	<b>2.1</b>
	Top 10 Average	2.4	2.4	2.4	2.3	2.2	2.4	2.3
	Bottom 10 Average	1.8	1.9	1.9	1.9	1.9	1.9	1.9
D. Consumer Price Index	<b>CONSENSUS</b>	<b>2.3</b>	<b>2.3</b>	<b>2.3</b>	<b>2.3</b>	<b>2.2</b>	<b>2.3</b>	<b>2.2</b>
	Top 10 Average	2.7	2.6	2.5	2.4	2.5	2.6	2.5
	Bottom 10 Average	1.9	2.0	2.0	2.1	2.0	2.0	2.0



**2016 Historical Data**

Monthly Indicator	Jan	Feb	Mar	Apr	May	Jun	Jly	Aug	Sep	Oct	Nov	Dec
Retail and Food Service Sales (a)	-0.5	0.3	-0.3	1.3								
Auto & Light Truck Sales (b)	17.45	17.43	16.46	17.32								
Personal Income (a, current \$)	0.4	0.1	0.4									
Personal Consumption (a, current \$)	0.2	0.2	0.1									
Consumer Credit (e)	4.4	4.8	10.0									
Consumer Sentiment (U. of Mich.)	92.0	91.7	91.0	89.0								
Household Employment (c)	615	530	246	-316								
Non-farm Payroll Employment (c)	168	233	208	160								
Unemployment Rate (%)	4.9	4.9	5.0	5.0								
Average Hourly Earnings (All, cur. \$)	25.38	25.39	25.45	25.53								
Average Workweek (All, hrs.)	34.6	34.4	34.4	34.5								
Industrial Production (d)	-1.3	-1.4	-1.9	-1.1								
Capacity Utilization (%)	75.7	75.6	74.9	75.4								
ISM Manufacturing Index (g)	48.2	49.5	51.8	50.8								
ISM Non-Manufacturing Index (g)	53.5	53.4	54.5	55.7								
Housing Starts (b)	1.128	1.213	1.099	1.172								
Housing Permits (b)	1.188	1.162	1.077	1.116								
New Home Sales (1-family, c)	521	538	531	619								
Construction Expenditures (a)	-0.3	1.0	0.3									
Consumer Price Index (nsa., d)	1.4	1.0	0.9	1.1								
CPI ex. Food and Energy (nsa., d)	2.2	2.3	2.2	2.1								
Producer Price Index (n.s.a., d)	-0.2	0.0	-0.1	0.0								
Durable Goods Orders (a)	4.3	-3.3	1.9	3.4								
Leading Economic Indicators (g)	-0.2	-0.1	0.2									
Balance of Trade & Services (f)	-45.9	-47.0	-40.4									
Federal Funds Rate (%)	0.34	0.38	0.36	0.37								
3-Mo. Treasury Bill Rate (%)	0.26	0.31	0.29	0.23								
10-Year Treasury Note Yield (%)	2.09	1.78	1.89	1.81								

**2015 Historical Data**

Monthly Indicator	Jan	Feb	Mar	Apr	May	Jun	Jly	Aug	Sep	Oct	Nov	Dec
Retail and Food Service Sales (a)	-0.5	-0.5	1.5	0.1	0.9	0.1	0.6	-0.1	0.1	0.0	0.3	0.4
Auto & Light Truck Sales (b)	16.63	16.32	17.06	16.70	17.63	16.95	17.47	17.73	18.07	18.13	18.06	17.22
Personal Income (a, current \$)	0.2	0.3	0.0	0.6	0.6	0.5	0.3	0.3	0.1	0.3	0.3	0.3
Personal Consumption (a, current \$)	-0.4	0.2	0.5	0.3	0.9	0.3	0.3	0.3	0.2	0.2	0.4	0.1
Consumer Credit (e)	3.6	5.5	7.6	7.6	7.0	9.6	6.8	5.1	9.9	5.2	4.8	7.3
Consumer Sentiment (U. of Mich.)	98.1	95.4	93.0	95.9	90.7	96.1	93.1	91.9	87.2	90.0	91.3	92.6
Household Employment (c)	665	127	102	176	239	-26	144	177	-101	255	247	485
Non-Farm Payroll Employment (c)	221	265	84	251	273	228	277	150	149	295	280	271
Unemployment Rate (%)	5.7	5.5	5.5	5.4	5.5	5.3	5.3	5.1	5.1	5.0	5.0	5.0
Average Hourly Earnings (All, cur. \$)	24.76	24.80	24.87	24.91	24.97	24.96	25.03	25.12	25.14	25.21	25.27	25.26
Average Workweek (All, hrs.)	34.6	34.6	34.5	34.5	34.5	34.5	34.6	34.6	34.5	34.5	34.5	34.5
Industrial Production (d)	3.4	2.5	1.3	1.1	0.3	-0.2	0.3	0.4	-0.3	-0.4	-2.1	-2.3
Capacity Utilization (%)	78.0	77.7	77.3	76.9	76.6	76.4	76.7	76.7	76.4	76.3	75.7	75.4
ISM Manufacturing Index (g)	53.5	53.3	52.3	51.6	53.1	53.1	51.9	51.0	50.0	49.4	48.4	48.0
ISM Non-Manufacturing Index (g)	56.7	57.1	56.9	57.5	55.9	56.2	59.6	58.3	56.7	58.3	56.6	55.8
Housing Starts (b)	1.101	0.893	0.964	1.192	1.063	1.213	1.147	1.132	1.189	1.073	1.171	1.160
Housing Permits (b)	1.073	1.114	1.071	1.178	1.266	1.334	1.142	1.166	1.129	1.175	1.286	1.201
New Home Sales (1-family, c)	521	545	485	508	513	469	500	507	457	480	511	537
Construction Expenditures (a)	1.5	0.4	1.5	3.1	2.1	0.5	0.0	0.6	0.2	-0.1	-0.5	0.8
Consumer Price Index (s.a., d)	-0.1	0.0	-0.1	-0.2	0.0	0.1	0.2	0.2	0.0	0.2	0.5	0.7
CPI ex. Food and Energy (s.a., d)	1.6	1.7	1.8	1.8	1.7	1.8	1.8	1.8	1.9	1.9	2.0	2.1
Producer Price Index (n.s.a., d)	0.0	-0.5	-0.9	-1.1	-0.8	0.5	-0.7	-1.0	-1.1	-1.4	-1.3	-1.1
Durable Goods Orders (a)	1.9	-3.5	5.1	-1.7	-2.3	4.1	1.9	-2.9	-0.8	2.8	-0.5	-4.6
Leading Economic Indicators (g)	0.2	-0.2	0.4	0.6	0.6	0.6	0.0	-0.1	0.0	0.6	0.5	-0.3
Balance of Trade & Services (f)	-43.6	-38.6	-52.2	-43.4	-43.5	-46.3	-43.7	-50.5	-44.3	-45.5	-43.6	-44.7
Federal Funds Rate (%)	0.11	0.11	0.11	0.12	0.12	0.13	0.13	0.14	0.14	0.12	0.12	0.24
3-Mo. Treasury Bill Rate (%)	0.03	0.02	0.03	0.02	0.02	0.02	0.03	0.07	0.02	0.02	0.12	0.23
10-Year Treasury Note Yield (%)	1.88	1.98	2.04	1.94	2.20	2.36	2.32	2.17	2.17	2.07	2.26	2.24

(a) month-over-month % change; (b) millions, saar; (c) month-over-month change, thousands; (d) year-over-year % change; (e) annualized % change; (f) \$ billions; (g) level. Most series are subject to frequent government revisions. Use with care.

**Calendar Of Upcoming Economic Data Releases**

<b>Monday</b>	<b>Tuesday</b>	<b>Wednesday</b>	<b>Thursday</b>	<b>Friday</b>
<b>May 30</b> <b>Memorial Day</b> <b>U.S. Markets Closed</b>	<b>31</b> S&P/Case-Shiller Home Price Index (Mar) Consumer Confidence (May, Conference Board) Personal Income and Consumption (Apr) Chicago PMI (May) Dallas Fed Survey (May)	<b>June 1</b> Markit Manufacturing PMI (May, Final) ISM Manufacturing ((May) Construction Spending (Apr) Light Vehicle Sales (May) Beige Book EIA Crude Oil Stocks Mortgage Applications	<b>2</b> ADP Employment (May) Weekly Jobless Claims Weekly Money Supply	<b>3</b> Employment (May) International Trade (Apr) Markit Services PMI (May, Final) ISM Non-manufacturing (May) Factory Orders (Apr)
<b>6</b>	<b>7</b> Productivity and Costs (Q1, Revised) Consumer Credit (Apr)	<b>8</b> JOLTS (Apr) Quarterly Services Spending (Q1) EIA Crude Oil Stocks Mortgage Applications	<b>9</b> Wholesale Trade (Apr) Weekly Jobless Claims Weekly Money Supply	<b>10</b> Consumer Sentiment (Jun, Preliminary, University of Michigan)
<b>13</b>	<b>14</b> <b>FOMC Meeting</b> Retail Sales (May) NFIB Survey (May) Import Prices (May) Business Inventories (Apr)	<b>15</b> <b>FOMC Meeting</b> <b>Statement and Projections 2:00 pm</b> <b>Press conference 2:30 pm</b> Producer Price Index May Empire State Survey (Jun) Industrial Production (May) TIC Data (Apr)	<b>16</b> Philadelphia Fed Survey (Jun) Consumer Price Index (May) NAHB survey (Jun) Current Account (Q1) Weekly Jobless Claims Weekly Money Supply	<b>17</b> Housing Starts (May)
<b>20</b>	<b>21</b>	<b>22</b> Existing Home Sales (May) FHFA Home Price Index (Apr) EIA Crude Oil Stocks Mortgage Applications	<b>23</b> Markit Manufacturing PMI (Jun, flash) New Home Sales (May) Kansas City Fed Survey (Jun) Weekly Jobless Claims Weekly Money Supply	<b>24</b> Durable Goods (May) Consumer Sentiment (Jun, Final, University of Michigan)
<b>27</b> International Trade (May, Advance) Markit Services PMI (Jun, Flash) Dallas Fed Survey (Jun)	<b>28</b> Real GDP (Q1, Flash) S&P/Case-Shiller Home Price Index (Apr) Consumer Confidence (Jun, Conference Board) Richmond Fed Survey (Jun)	<b>29</b> Personal Income and Consumption (May) Pending Home Sales (May) EIA Crude Oil Stocks Mortgage Applications	<b>30</b> Chicago PMI (Jun) Weekly Jobless Claims Weekly Money Supply	<b>July 1</b> Markit Manufacturing PMI (Jun, Final) ISM Manufacturing (Jun) Construction Spending (May) Light Vehicle Sales
<b>4</b> <b>Independence Day</b> <b>U.S. Markets Closed</b>	<b>5</b> Factory Orders (May)	<b>6</b> <b>FOMC Minutes</b> International Trade (May) Markit Services PMI (Jun, final) ISM Non-Manufacturing (Jun) EIA Crude Oil Stocks Mortgage Applications	<b>7</b> ADP Employment (Jun) Weekly Jobless Claims Weekly Money Supply	<b>8</b> Employment (Jun) Consumer Credit (May)

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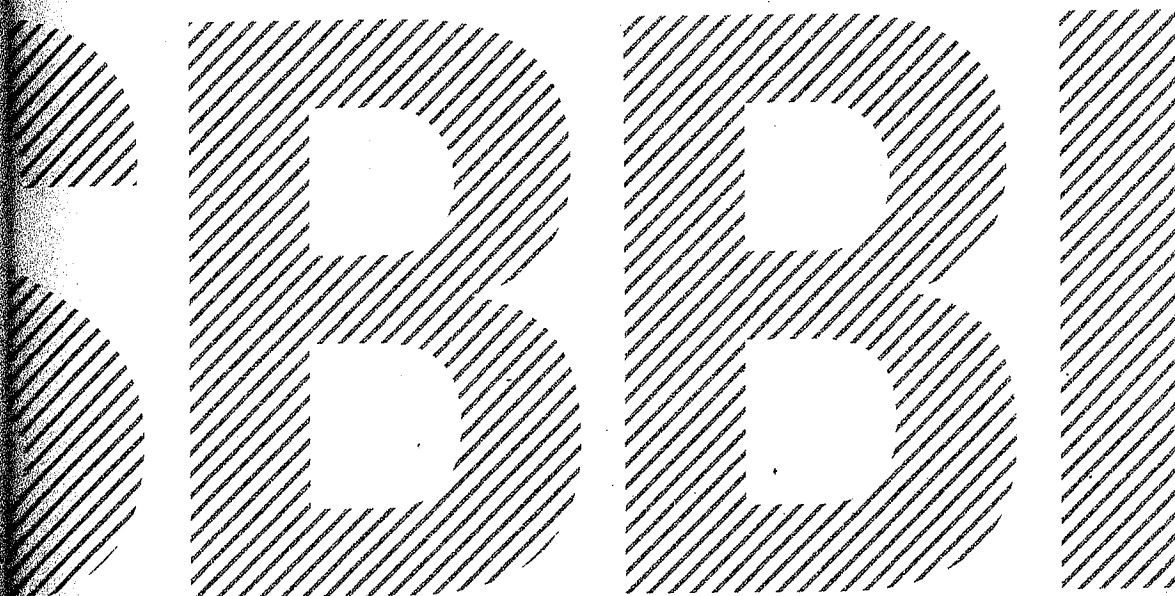
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## Chapter 7

## Company Size and Return

One of the most remarkable discoveries of modern finance is the finding of a relationship between company size and return.<sup>1</sup> Historically on average, small companies have higher returns than those of large ones. Earlier chapters of this book document this phenomenon for the smallest stocks on the New York Stock Exchange, or NYSE. The relationship between company size and return cuts across the entire size spectrum; it is not restricted to the smallest stocks. This chapter examines returns across the entire range of company size.

#### Construction of the Size Decile Portfolios

The portfolios used in this chapter are those created by the Center for Research in Security Prices, or CRSP, at the University of Chicago's Booth School of Business. CRSP has refined the methodology of creating size-based portfolios and has applied this methodology to the entire universe of NYSE/AMEX/NASDAQ-listed securities going back to 1926.

The NYSE universe excludes closed-end mutual funds, preferred stocks, real estate investment trusts, foreign stocks, American Depository Receipts, unit investment trusts, and Americus Trusts. All companies on the NYSE are ranked by the combined market capitalization of all their eligible equity securities. The companies are then split into 10 equally populated groups or deciles. Eligible companies traded on the NYSE, the NYSE MKT LLC (formerly known as the American Stock Exchange, or AMEX), and the NASDAQ Stock Market (formerly the NASDAQ National Market) are then assigned to the appropriate deciles according to their capitalization in relation to the NYSE breakpoints. The portfolios are rebalanced using closing prices for the last trading day of March, June, September, and December. Securities added during the quarter are assigned to the

appropriate portfolio when two consecutive month-end prices are available. If the final NYSE price of a security that becomes delisted is a month-end price, then that month's return is included in the quarterly return of the portfolio. When a month-end NYSE price is missing, the month-end value is derived from merger terms, quotations on regional exchanges, and other sources. If a month-end value is not available, the last available daily price is used.

In October 2008, NYSE Euronext acquired the American Stock Exchange and rebranded the index as NYSE Amex. Later, in May 2012, it was renamed NYSE MKT LLC. For the sake of continuity, we refer to this index as AMEX, its historical name.

Base security returns are monthly holding period returns. All distributions are added to the month-end prices. Appropriate adjustments are made to prices to account for stock splits and dividends. The return on a portfolio for one month is calculated as the value weighted average of the returns for the individual stocks in the portfolio. Annual portfolio returns are calculated by compounding the monthly portfolio returns.

#### Aspects of the Company Size Effect

The company size phenomenon is remarkable in several ways. First, the greater risk of small-cap does not, in the context of the capital asset pricing model, fully account for their higher returns over the long term. In the CAPM only systematic, or beta risk, is rewarded; small-cap stock returns have exceeded those implied by their betas.

Second, the calendar annual return differences between small- and large-cap companies are serially correlated. This suggests that past annual returns may be of some value in predicting future annual returns. Such serial correlation, or autocorrelation, is practically unknown in the market for large-cap stocks and in most other equity markets but is evident in the size premium series.

**Table 7-5:** Size-Decile Portfolios of the NYSE/AMEX/NASDAQ Number of Companies, Historical and Recent Market Capitalization

Decile	Historical Average Percentage of Total Capitalization	Recent Number of Companies	Recent Decile Market Capitalization (in Thousands)	Recent Percentage of Total Capitalization
1-Largest	64.03%	185	14,808,784,274	64.25%
2	14.04	199	3,247,447,914	14.09
3	6.88	194	1,579,432,904	6.85
4	4.56	221	1,042,428,212	4.52
5	3.03	215	694,147,086	3.01
6	2.56	265	585,657,120	2.54
7	1.99	317	449,325,255	1.95
8	1.51	417	333,731,801	1.45
9	0.80	395	173,673,205	0.75
10-Smallest	0.61	948	135,401,288	0.59
Mid-Cap 3-5	14.47	630	3,316,008,202	14.39
Low-Cap 6-8	6.05	999	1,368,714,176	5.94
Micro-Cap 9-10	1.41	1,343	309,074,493	1.34

Data from 1926–2014. Source: Morningstar and CRSP. Calculated (or Derived) based on data from CRSP US Stock Database and CRSP US Indices Database ©2015 Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business. Used with permission.

Historical average percentage of total capitalization shows the average, over the last 89 years, of the decile market values as a percentage of the total NYSE/AMEX/NASDAQ calculated each month. Number of companies in deciles, recent market capitalization of deciles, and recent percentage of total capitalization are as of Sept. 30, 2014.

Decile	Recent Market Capitalization (in Thousands)	Company Name
1-Largest	\$591,015,721	Apple Inc
2	24,272,837	Cummins Inc
3	10,105,622	Murphy Oil Corp
4	5,844,592	Alaska Airgroup Inc
5	3,724,186	Great Plains Energy Inc
6	2,542,913	Wolverine World Wide Inc
7	1,686,860	Wesco Aircraft Holdings Inc
8	1,010,634	First Bancorp P R
9	548,839	G P Strategies Corp
10-Smallest	300,725	M V Oil Trust

Source: Morningstar and CRSP. Calculated (or Derived) based on data from CRSP US Stock Database and CRSP US Indices Database ©2015 Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business. Used with permission. Market capitalization and name of largest company in each decile are as of Sept. 30, 2014.

### Long-Term Returns in Excess of Systematic Risk

The capital asset pricing model, or CAPM, does not fully account for the higher returns of small-cap stocks. Table 7-6 shows the returns in excess of the riskless rate over the past 89 years for each decile of the NYSE/AMEX/NASDAQ.

The CAPM can be expressed as follows:

$$k_s = r_f + (\beta_s \times ERP)$$

where,

- $k_s$  = the expected return for company  $s$ ;
- $r_f$  = the expected return of the riskless asset;
- $\beta_s$  = the beta of the stock of company  $s$ ; and,
- ERP = the expected equity risk premium, or the amount by which investors expect the future return on equities to exceed that on the riskless asset.

Table 7-6 uses the CAPM to estimate the return in excess of the riskless rate and compares this estimate to historical performance. According to the CAPM, the expected return on a security should consist of the riskless rate plus an additional return to compensate for the systematic risk of the security. The return in excess of the riskless rate is estimated in the context of the CAPM by multiplying the equity risk premium by  $\beta$  (beta). The equity risk premium is the return that compensates investors for taking on risk equal to the risk of the market as a whole (systematic risk). Beta measures the extent to which a security or portfolio is exposed to systematic risk. The beta of each decile indicates the degree to which the decile's return moves with that of the overall market.

A beta greater than one indicates that the security or portfolio has greater systematic risk than the market; according to the CAPM equation, investors are compensated for taking on this additional risk. Yet, Table 7-6 illustrates that the smaller deciles have had returns that are not fully explained by their higher betas. This return in excess of that predicted by CAPM increases as one moves from the largest companies in decile 1 to the smallest in decile 10. The excess return is especially pronounced for micro-cap stocks (deciles 9-10). This size-related phenomenon has prompted a revision to the CAPM, which includes a size premium.

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Chapter 6: Alternative Asset Pricing Models

The model is analogous to the standard CAPM, but with the return on a minimum risk portfolio that is unrelated to market returns,  $R_z$ , replacing the risk-free rate,  $R_f$ . The model has been empirically tested by Black, Jensen, and Scholes (1972), who find a flatter than predicted SML, consistent with the model and other researchers' findings. An updated version of the Black-Jensen-Scholes study is available in Brealey, Myers, and Allen (2006) and reaches similar conclusions.

The zero-beta CAPM cannot be literally employed to estimate the cost of capital, since the zero-beta portfolio is a statistical construct difficult to replicate. Attempts to estimate the model are formally equivalent to estimating the constants,  $a$  and  $b$ , in Equation 6-2. A practical alternative is to employ the Empirical CAPM, to which we now turn.

### 6.3 Empirical CAPM

As discussed in the previous section, several finance scholars have developed refined and expanded versions of the standard CAPM by relaxing the constraints imposed on the CAPM, such as dividend yield, size, and skewness effects. These enhanced CAPMs typically produce a risk-return relationship that is flatter than the CAPM prediction in keeping with the actual observed risk-return relationship. The ECAPM makes use of these empirical findings. The ECAPM estimates the cost of capital with the equation:

$$K = R_f + \alpha + \beta \times (\text{MRP} - \alpha) \quad (6-5)$$

where  $\alpha$  is the "alpha" of the risk-return line, a constant, and the other symbols are defined as before. All the potential vagaries of the CAPM are telescoped into the constant  $\alpha$ , which must be estimated econometrically from market data. Table 6-2 summarizes<sup>10</sup> the empirical evidence on the magnitude of alpha.<sup>11</sup>

<sup>10</sup> The technique is formally applied by Litzenberger, Ramaswamy, and Sosin (1980) to public utilities in order to rectify the CAPM's basic shortcomings. Not only do they summarize the criticisms of the CAPM insofar as they affect public utilities, but they also describe the econometric intricacies involved and the methods of circumventing the statistical problems. Essentially, the average monthly returns over a lengthy time period on a large cross-section of securities grouped into portfolios are related to their corresponding betas by statistical regression techniques; that is, Equation 6-5 is estimated from market data. The utility's beta value is substituted into the equation to produce the cost of equity figure. Their own results demonstrate how the standard CAPM underestimates the cost of equity capital of public utilities because of utilities' high dividend yield and return skewness.

<sup>11</sup> Adapted from Vilbert (2004).



**TABLE 6-2**  
**EMPIRICAL EVIDENCE ON THE ALPHA FACTOR**

Author	Range of alpha
Fischer (1993)	-3.6% to 3.6%
Fischer, Jensen and Scholes (1972)	-9.61% to 12.24%
Fama and McBeth (1972)	4.08% to 9.36%
Fama and French (1992)	10.08% to 13.56%
Litzenberger and Ramaswamy (1979)	5.32% to 8.17%
Litzenberger, Ramaswamy and Sosin (1980)	1.63% to 5.04%
Pettengill, Sundaram and Mathur (1995)	4.6%
Morin (1989)	2.0%

For an alpha in the range of 1%–2% and for reasonable values of the market risk premium and the risk-free rate, Equation 6-5 reduces to the following more pragmatic form:

$$K = R_F + 0.25 (R_M - R_F) + 0.75 \beta (R_M - R_F) \quad (6-6)$$

Over reasonable values of the risk-free rate and the market risk premium, Equation 6-6 produces results that are indistinguishable from the ECAPM of Equation 6-5.<sup>12</sup>

An alpha range of 1%–2% is somewhat lower than that estimated empirically. The use of a lower value for alpha leads to a lower estimate of the cost of capital for low-beta stocks such as regulated utilities. This is because the use of a long-term risk-free rate rather than a short-term risk-free rate already incorporates some of the desired effect of using the ECAPM. That is, the

<sup>12</sup> Typical of the empirical evidence on the validity of the CAPM is a study by Morin (1989) who found that the relationship between the expected return on a security and beta over the period 1926–1984 was given by:

$$\text{Return} = 0.0829 + 0.0520 \beta$$

Given that the risk-free rate over the estimation period was approximately 6% and that the market risk premium was 8% during the period of study, the intercept of the observed relationship between return and beta exceeds the risk-free rate by about 2%, or 1/4 of 8%, and that the slope of the relationship is close to 3/4 of 8%. Therefore, the empirical evidence suggests that the expected return on a security is related to its risk by the following approximation:

$$K = R_F + x(R_M - R_F) + (1 - x)\beta(R_M - R_F)$$

where x is a fraction to be determined empirically. The value of x that best explains the observed relationship  $\text{Return} = 0.0829 + 0.0520 \beta$  is between 0.25 and 0.30. If  $x = 0.25$ , the equation becomes:

$$K = R_F + 0.25(R_M - R_F) + 0.75\beta(R_M - R_F)$$



Chapter 6: Alternative Asset Pricing Models

long-term risk-free rate version of the CAPM has a higher intercept and a flatter slope than the short-term risk-free version which has been tested. Thus, it is reasonable to apply a conservative alpha adjustment. Moreover, the lowering of the tax burden on capital gains and dividend income enacted in 2002 may have decreased the required return for taxable investors, steepening the slope of the ECAPM risk-return trade-off and bring it closer to the CAPM predicted returns.<sup>13</sup>

To illustrate the application of the ECAPM, assume a risk-free rate of 5%, a market risk premium of 7%, and a beta of 0.80. The Empirical CAPM equation (6-6) above yields a cost of equity estimate of 11.0% as follows:

$$\begin{aligned} K &= 5\% + 0.25 (12\% - 5\%) + 0.75 \times 0.80 (12\% - 5\%) \\ &= 5.0\% + 1.8\% + 4.2\% \\ &= 11.0\% \end{aligned}$$

As an alternative to specifying alpha, see Example 6-1.

Some have argued that the use of the ECAPM is inconsistent with the use of adjusted betas, such as those supplied by Value Line and Bloomberg. This is because the reason for using the ECAPM is to allow for the tendency of betas to regress toward the mean value of 1.00 over time, and, since Value Line betas are already adjusted for such trend, an ECAPM analysis results in double-counting. This argument is erroneous. Fundamentally, the ECAPM is not an adjustment, increase or decrease, in beta. This is obvious from the fact that the expected return on high beta securities is actually lower than that produced by the CAPM estimate. The ECAPM is a formal recognition that the observed risk-return tradeoff is flatter than predicted by the CAPM based on myriad empirical evidence. The ECAPM and the use of adjusted betas comprised two separate features of asset pricing. Even if a company's beta is estimated accurately, the CAPM still understates the return for low-beta stocks. Even if the ECAPM is used, the return for low-beta securities is understated if the betas are understated. Referring back to Figure 6-1, the ECAPM is a return (vertical axis) adjustment and not a beta (horizontal axis) adjustment. Both adjustments are necessary. Moreover, recall from Chapter 3 that the use of adjusted betas compensates for interest rate sensitivity of utility stocks not captured by unadjusted betas.

<sup>13</sup> The lowering of the tax burden on capital gains and dividend income has no impact as far as non-taxable institutional investors (pension funds, 401K, and mutual funds) are concerned, and such investors engage in very large amounts of trading on security markets. It is quite plausible that taxable retail investors are relatively inactive traders and that large non-taxable investors have a substantial influence on capital markets.



## The Risk Premium Approach to Measuring a Utility's Cost of Equity

Eugene F. Brigham; Dilip K. Shome; Steve R. Vinson

*Financial Management*, Vol. 14, No. 1. (Spring, 1985), pp. 33-45.

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## *Cost of Capital Estimation*

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# **The Risk Premium Approach to Measuring a Utility's Cost of Equity**

**Eugene F. Brigham, Dilip K. Shome, and Steve R. Vinson**

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■ In the mid-1960s, Myron Gordon and others began applying the theory of finance to help estimate utilities' costs of capital. Previously, the standard approach in cost of equity studies was the "comparable earnings method," which involved selecting a sample of unregulated companies whose investment risk was judged to be comparable to that of the utility in question, calculating the average return on book equity (ROE) of these sample companies, and setting the utility's service rates at a level that would permit the utility to achieve the same ROE as comparable companies. This procedure has now been thoroughly discredited (see Robichek [15]), and it has been replaced by three market-oriented (as opposed to accounting-oriented) approaches: (i) the DCF method, (ii) the bond-yield-plus-risk-premium method, and (iii) the CAPM, which is a specific version of the generalized bond-yield-plus-risk-premium approach.

Our purpose in this paper is to discuss the risk-premium approach, including the market risk premium that is used in the CAPM. First, we critique the various procedures that have been used in the past to estimate risk premiums. Second, we present some data on esti-

mated risk premiums since 1965. Third, we examine the relationship between equity risk premiums and the level of interest rates, because it is important, for purposes of estimating the cost of capital, to know just how stable the relationship between risk premiums and interest rates is over time. If stability exists, then one can estimate the cost of equity at any point in time as a function of interest rates as reported in *The Wall Street Journal*, the *Federal Reserve Bulletin*, or some similar source.<sup>1</sup> Fourth, while we do not discuss the CAPM directly, our analysis does have some important implications for selecting a market risk premium for use in that model. Our focus is on utilities, but the methodology is applicable to the estimation of the cost of

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<sup>1</sup>For example, the Federal Energy Regulatory Commission's Staff recently proposed that a risk premium be estimated every two years and that, between estimation dates, the last-determined risk premium be added to the current yield on ten-year Treasury bonds to obtain an estimate of the cost of equity to an average utility (Docket RM 80-36). Subsequently, the FCC made a similar proposal ("Notice of Proposed Rulemaking," August 13, 1984, Docket No. 84-800). Obviously, the validity of such procedures depends on (i) the accuracy of the risk premium estimate and (ii) the stability of the relationship between risk premiums and interest rates. Both proposals are still under review.

equity for any publicly traded firm, and also for non-traded firms for which an appropriate risk class can be assessed, including divisions of publicly traded corporations.<sup>2</sup>

### Alternative Procedures for Estimating Risk Premiums

In a review of both rate cases and the academic literature, we have identified three basic methods for estimating equity risk premiums: (i) the *ex post*, or historic, yield spread method; (ii) the survey method; and (iii) an *ex ante* yield spread method based on DCF analysis.<sup>3</sup> In this section, we briefly review these three methods.

#### Historic Risk Premiums

A number of researchers, most notably Ibbotson and Sinquefeld [12], have calculated historic holding period returns on different securities and then estimated risk premiums as follows:

$$\text{Historic Risk Premium} = \left( \begin{array}{c} \text{Average of the} \\ \text{annual returns on} \\ \text{a stock index for} \\ \text{a particular} \\ \text{past period} \end{array} \right) - \left( \begin{array}{c} \text{Average of the} \\ \text{annual returns on} \\ \text{a bond index for} \\ \text{the same} \\ \text{past period} \end{array} \right) \quad (1)$$

Ibbotson and Sinquefeld (I&S) calculated both arithmetic and geometric average returns, but most of their risk-premium discussion was in terms of the geometric averages. Also, they used both corporate and Treasury bond indices, as well as a T-bill index, and they analyzed all possible holding periods since 1926. The I&S study has been employed in numerous rate cases in two ways: (i) directly, where the I&S historic risk premium is added to a company's bond yield to obtain an esti-

<sup>2</sup>The FCC is particularly interested in risk-premium methodologies, because (i) only eighteen of the 1,400 telephone companies it regulates have publicly-traded stock, and hence offer the possibility of DCF analysis, and (ii) most of the publicly-traded telephone companies have both regulated and unregulated assets, so a corporate DCF cost might not be applicable to the regulated units of the companies.

<sup>3</sup>In rate cases, some witnesses also have calculated the differential between the yield to maturity (YTM) of a company's bonds and its concurrent ROE, and then called this differential a risk premium. In general, this procedure is unsound, because the YTM on a bond is a *future expected* return on the bond's *market value*, while the ROE is the *past realized* return on the stock's *book value*. Thus, comparing YTM's and ROE's is like comparing apples and oranges.

mate of its cost of equity, and (ii) indirectly, where I&S data are used to estimate the market risk premium in CAPM studies.

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 they can result in significant differences in the final outcome. These measurement problems are common to most forecasts based on time series data.

#### The Survey Approach

One obvious way to estimate equity risk premiums is to poll investors. Charles Benore [1], the senior utility analyst for Paine Webber Mitchell Hutchins, a leading institutional brokerage house, conducts such a survey of major institutional investors annually. His 1983 results are reported in Exhibit 1.

**Exhibit 1.** Results of Risk Premium Survey, 1983\*

Assuming a double A, long-term utility bond currently yields 12½%, the common stock for the same company would be fairly priced relative to the bond if its expected return was as follows:

Total Return	Indicated Risk Premium (basis points)	Percent of Respondents
over 20½%	over 800	
20½%	800	
19½%	700	
18½%	600	10%
17½%	500	8%
16½%	400	29%
15½%	300	35%
14½%	200	16%
13½%	100	0%
under 13½%	under 100	1%
Weighted average	358	100%

\*Benore's questionnaire included the first two columns, while his third column provided a space for the respondents to indicate which risk premium they thought applied. We summarized Benore's responses in the frequency distribution given in Column 3. Also, in his questionnaire each year, Benore adjusts the double A bond yield and the total returns (Column 1) to reflect current market conditions. Both the question above and the responses to it were taken from the survey conducted in April 1983.

Benore's results, as measured by the average risk premiums, have varied over the years as follows:

Year	Average RP (basis points)
1978	491
1979	475
1980	423
1981	349
1982	275
1983	358

The survey approach is conceptually sound in that it attempts to measure investors' expectations regarding risk premiums, and the Benore data also seem to be carefully collected and processed. Therefore, the Benore studies do provide one useful basis for estimating risk premiums. However, as with most survey results, the possibility of biased responses and/or biased sampling always exists. For example, if the responding institutions are owners of utility stocks (and many of them are), and if the respondents think that the survey results might be used in a rate case, then they might bias upward their responses to help utilities obtain higher authorized returns. Also, Benore surveys large institutional investors, whereas a high percentage of utility stocks are owned by individuals rather than institutions, so there is a question as to whether his reported risk premiums are really based on the expectations of the "representative" investor. Finally, from a pragmatic standpoint, there is a question as to how to use the Benore data for utilities that are not rated AA. The Benore premiums can be applied as an add-on to the own-company bond yields of any given utility only if it can be assumed that the premiums are constant across bond rating classes. *A priori*, there is no reason to believe that the premiums will be constant.

#### DCF-Based *Ex Ante* Risk Premiums

In a number of studies, the DCF model has been used to estimate the *ex ante* market risk premium,  $RP_M$ . Here, one estimates the average expected future return on equity for a group of stocks,  $k_M$ , and then subtracts the concurrent risk-free rate,  $R_F$ , as proxied by the yield to maturity on either corporate or Treasury securities:<sup>4</sup>

$$RP_M = k_M - R_F \quad (2)$$

Conceptually, this procedure is exactly like the I&S approach except that one makes direct estimates of future expected returns on stocks and bonds rather than

assuming that investors expect future returns to mirror past returns.

The most difficult task, of course, is to obtain a valid estimate of  $k_M$ , the expected rate of return on the market. Several studies have attempted to estimate DCF risk premiums for the utility industry and for other stock market indices. Two of these are summarized next.

**Vandell and Kester.** In a recently published monograph, Vandell and Kester [18] estimated *ex ante* risk premiums for the period from 1944 to 1978.  $R_F$  was measured both by the yield on 90-day T-bills and by the yield on the Standard and Poor's AA Utility Bond Index. They measured  $k_M$  as the average expected return on the S&P's 500 Index, with the expected return on individual securities estimated as follows:

$$k_i = \left( \frac{D_t}{P_0} \right)_i + g_i \quad (3)$$

where,

- $D_t$  = dividend per share expected over the next twelve months,
- $P_0$  = current stock price,
- $g$  = estimated long-term constant growth rate, and
- $i$  = the  $i^{\text{th}}$  stock.

To estimate  $g_i$ , Vandell and Kester developed fifteen forecasting models based on both exponential smoothing and trend-line forecasts of earnings and dividends, and they used historic data over several estimating horizons. Vandell and Kester themselves acknowledge that, like the Ibbotson-Sinquefeld premiums, their analysis is subject to potential errors associated with trying to estimate expected future growth purely from past data. We shall have more to say about this point later.

<sup>4</sup>In this analysis, most people have used yields on long-term bonds rather than short-term money market instruments. It is recognized that long-term bonds, even Treasury bonds, are not risk free, so an  $RP_M$  based on these debt instruments is smaller than it would be if there were some better proxy to the long-term riskless rate. People have attempted to use the T-bill rate for  $R_F$ , but the T-bill rate embodies a different average inflation premium than stocks, and it is subject to random fluctuations caused by monetary policy, international currency flows, and other factors. Thus, many people believe that for cost of capital purposes,  $R_F$  should be based on long-term securities.

We did test to see how debt maturities would affect our calculated risk premiums. If a short-term rate such as the 30-day T-bill rate is used, measured risk premiums jump around widely and, so far as we could tell, randomly. The choice of a maturity in the 10- to 30-year range has little effect, as the yield curve is generally fairly flat in that range.



**Malkiel.** Malkiel [14] estimated equity risk premiums for the Dow Jones Industrials using the DCF model. Recognizing that the constant dividend growth assumption may not be valid, Malkiel used a nonconstant version of the DCF model. Also, rather than rely exclusively on historic data, he based his growth rates on Value Line's five-year earnings growth forecasts plus the assumption that each company's growth rate would, after an initial five-year period, move toward a long-run real national growth rate of four percent. He also used ten-year maturity government bonds as a proxy for the riskless rate. Malkiel reported that he tested the sensitivity of his results against a number of different types of growth rates, but, in his words, "The results are remarkably robust, and the estimated risk premiums are all very similar." Malkiel's is, to the best of our knowledge, the first risk-premium study that uses analysts' forecasts. A discussion of analysts' forecasts follows.

### Security Analysts' Growth Forecasts

*Ex ante* DCF risk premium estimates can be based either on expected growth rates developed from time series data, such as Vandell and Kester used, or on analysts' forecasts, such as Malkiel used. Although there is nothing inherently wrong with time series-based growth rates, an increasing body of evidence suggests that primary reliance should be placed on analysts' growth rates. First, we note that the observed market price of a stock reflects the consensus view of investors regarding its future growth. Second, we know that most large brokerage houses, the larger institutional investors, and many investment advisory organizations employ security analysts who forecast future EPS and DPS, and, to the extent that investors rely on analysts' forecasts, the consensus of analysts' forecasts is embodied in market prices. Third, there have been literally dozens of academic research papers dealing with the accuracy of analysts' forecasts, as well as with the extent to which investors actually use them. For example, Cragg and Malkiel [7] and Brown and Rozeff [5] determined that security analysts' forecasts are more relevant in valuing common stocks and estimating the cost of capital than are forecasts based solely on historic time series. Stanley, Lewellen, and Schlarbaum [16] and Linke [13] investigated the importance of analysts' forecasts and recommendations to the investment decisions of individual and institutional investors. Both studies indicate that investors rely heavily on analysts' reports and incorporate analysts' forecast information in the formation of their

expectations about stock returns. A representative listing of other work supporting the use of analysts' forecasts is included in the References section. Thus, evidence in the current literature indicates that (i) analysts' forecasts are superior to forecasts based solely on time series data, and (ii) investors do rely on analysts' forecasts. Accordingly, we based our cost of equity, and hence risk premium estimates, on analysts' forecast data.<sup>5</sup>

### Risk Premium Estimates

For purposes of estimating the cost of capital using the risk premium approach, it is necessary either that the risk premiums be time-invariant or that there exists a predictable relationship between risk premiums and interest rates. If the premiums are constant over time, then the constant premium could be added to the prevailing interest rate. Alternatively, if there exists a stable relationship between risk premiums and interest rates, it could be used to predict the risk premium from the prevailing interest rate.

To test for stability, we obviously need to calculate risk premiums over a fairly long period of time. Prior to 1980, the only consistent set of data we could find came from Value Line, and, because of the work involved, we could develop risk premiums only once a year (on January 1). Beginning in 1980, however, we began collecting and analyzing Value Line data on a monthly basis, and in 1981 we added monthly estimates from Merrill Lynch and Salomon Brothers to our data base. Finally, in mid-1983, we expanded our analysis to include the IBES data.

### Annual Data and Results, 1966-1984

Over the period 1966-1984, we used Value Line data to estimate risk premiums both for the electric utility industry and for industrial companies, using the companies included in the Dow Jones Industrial and Utility averages as representative of the two groups. Value Line makes a five-year growth rate forecast, but it also gives data from which one can develop a longer-term forecast. Since DCF theory calls for a truly long-term (infinite horizon) growth rate, we concluded that it was better to develop and use such a forecast than to

<sup>5</sup>Recently, a new type of service that summarizes the key data from most analysts' reports has become available. We are aware of two sources of such services, the Lynch, Jones, and Ryan's Institutional Brokers Estimate System (IBES) and Zack's Icarus Investment Service. IBES and the Icarus Service gather data from both buy-side and sell-side analysts and provide it to subscribers on a monthly basis in both a printed and a computer-readable format.

**Exhibit 2.** Estimated Annual Risk Premiums, Nonconstant (Value Line) Model, 1966-1984

January 1 of the Year Reported	Dow Jones Electrics			Dow Jones Industrials			(3) ÷ (6)
	k <sub>Avg</sub>	R <sub>F</sub>	RP	k <sub>Avg</sub>	R <sub>F</sub>	RP	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1966	8.11%	4.50%	3.61%	9.56%	4.50%	5.06%	0.71
1967	9.00%	4.76%	4.24%	11.57%	4.76%	6.81%	0.62
1968	9.68%	5.59%	4.09%	10.56%	5.59%	4.97%	0.82
1969	9.34%	5.88%	3.46%	10.96%	5.88%	5.08%	0.68
1970	11.04%	6.91%	4.13%	12.22%	6.91%	5.31%	0.78
1971	10.80%	6.28%	4.52%	11.23%	6.28%	4.95%	0.91
1972	10.53%	6.00%	4.53%	11.09%	6.00%	5.09%	0.89
1973	11.37%	5.96%	5.41%	11.47%	5.96%	5.51%	0.98
1974	13.85%	7.29%	6.56%	12.38%	7.29%	5.09%	1.29
1975	16.63%	7.91%	8.72%	14.83%	7.91%	6.92%	1.26
1976	13.97%	8.23%	5.74%	13.32%	8.23%	5.09%	1.13
1977	12.96%	7.30%	5.66%	13.63%	7.30%	6.33%	0.89
1978	13.42%	7.87%	5.55%	14.75%	7.87%	6.88%	0.81
1979	14.92%	8.99%	5.93%	15.50%	8.99%	6.51%	0.91
1980	16.39%	10.18%	6.21%	16.53%	10.18%	6.35%	0.98
1981	17.61%	11.99%	5.62%	17.37%	11.99%	5.38%	1.04
1982	17.70%	14.00%	3.70%	19.30%	14.00%	5.30%	0.70
1983	16.30%	10.66%	5.64%	16.53%	10.66%	5.87%	0.96
1984	16.03%	11.97%	4.06%	15.72%	11.97%	3.75%	1.08

use the five-year prediction.<sup>6</sup> Therefore, we obtained data as of January 1 from Value Line for each of the Dow Jones companies and then solved for k, the expected rate of return, in the following equation:

$$P_0 = \sum_{t=1}^n \frac{D_t}{(1+k)^t} + \left( \frac{D_n(1+g_n)}{k-g_n} \right) \left( \frac{1}{1+k} \right)^n \quad (4)$$

Equation (4) is the standard nonconstant growth DCF model; P<sub>0</sub> is the current stock price; D<sub>t</sub> represents the forecasted dividends during the nonconstant growth period; n is the years of nonconstant growth; D<sub>n</sub> is the first constant growth dividend; and g<sub>n</sub> is the constant, long-run growth rate after year n. Value Line provides D<sub>t</sub> values for t = 1 and t = 4, and we interpolated to obtain D<sub>2</sub> and D<sub>3</sub>. Value Line also gives estimates for

<sup>6</sup>This is a debatable point. Cragg and Malkiel, as well as many practicing analysts, feel that most investors actually focus on five-year forecasts. Others, however, argue that five-year forecasts are too heavily influenced by base-year conditions and/or other nonpermanent conditions for use in the DCF model. We note (i) that most published forecasts do indeed cover five years, (ii) that such forecasts are typically "normalized" in some fashion to alleviate the base-year problem, and (iii) that for relatively stable companies like those in the Dow Jones averages, it generally does not matter greatly if one uses a normalized five-year or a longer-term forecast, because these companies meet the conditions of the constant-growth DCF model rather well.

ROE and for the retention rate (b) in the terminal year, n, so we can forecast the long-term growth rate as g<sub>n</sub> = b(ROE). With all the values in Equation (4) specified except k, we can solve for k, which is the DCF rate of return that would result if the Value Line forecasts were met, and, hence, the DCF rate of return implied in the Value Line forecast.<sup>7</sup>

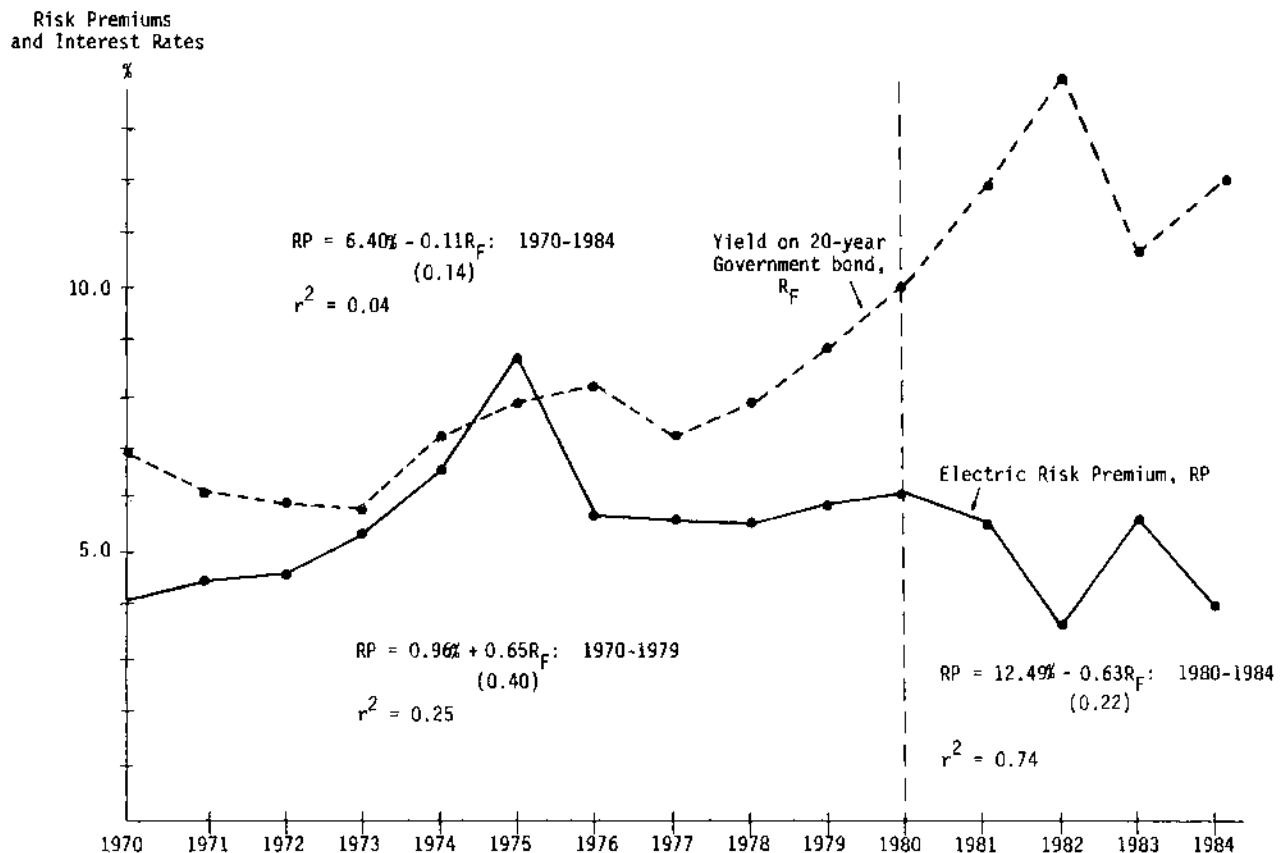
Having estimated a k value for each of the electric and industrial companies, we averaged them (using market-value weights) to obtain a k value for each group, after which we subtracted R<sub>F</sub> (taken as the December 31 yield on twenty-year constant maturity Treasury bonds) to obtain the estimated risk premiums shown in Exhibit 2. The premiums for the electrics are plotted in Exhibit 3, along with interest rates. The following points are worthy of note:

1. Risk premiums fluctuate over time. As we shall see in the next section, fluctuations are even wider when measured on a monthly basis.
2. The last column of Exhibit 2 shows that risk premi-

<sup>7</sup>Value Line actually makes an explicit price forecast for each stock, and one could use this price, along with the forecasted dividends, to develop an expected rate of return. However, Value Line's forecasted stock price builds in a forecasted change in k. Therefore, the forecasted price is inappropriate for use in estimating current values of k.



**Exhibit 3.** Equity Risk Premiums for Electric Utilities and Yields on 20-Year Government Bonds, 1970-1984\*



\*Standard errors of the coefficients are shown in parentheses below the coefficients.

ums for the utilities increased relative to those for the industrials from the mid-1960s to the mid-1970s. Subsequently, the perceived riskiness of the two groups has, on average, been about the same.

3. Exhibit 3 shows that, from 1970 through 1979, utility risk premiums tended to have a positive association with interest rates: when interest rates rose, so did risk premiums, and vice versa. However, beginning in 1980, an inverse relationship appeared: rising interest rates led to declining risk premiums. We shall discuss this situation further in the next section.

**Monthly Data and Results, 1980-1984**

In early 1980, we began calculating risk premiums on a monthly basis. At that time, our only source of analysts' forecasts was Value Line, but beginning in 1981 we also obtained Merrill Lynch and Salomon Brothers' data, and then, in mid-1983, we obtained

IBES data. Because our focus was on utilities, we restricted our monthly analysis to that group.

Our 1980-1984 monthly risk premium data, along with Treasury bond yields, are shown in Exhibits 4 and 5 and plotted in Exhibits 6, 7, and 8. Here are some comments on these Exhibits:

1. Risk premiums, like interest rates and stock prices, are volatile. Our data indicate that it would not be appropriate to estimate the cost of equity by adding the current cost of debt to a risk premium that had been estimated in the past. Current risk premiums should be matched with current interest rates.
2. Exhibit 6 confirms the 1980-1984 section of Exhibit 3 in that it shows a strong inverse relationship between interest rates and risk premiums; we shall discuss shortly why this relationship holds.
3. Exhibit 7 shows that while risk premiums based on Value Line, Merrill Lynch, and Salomon Brothers

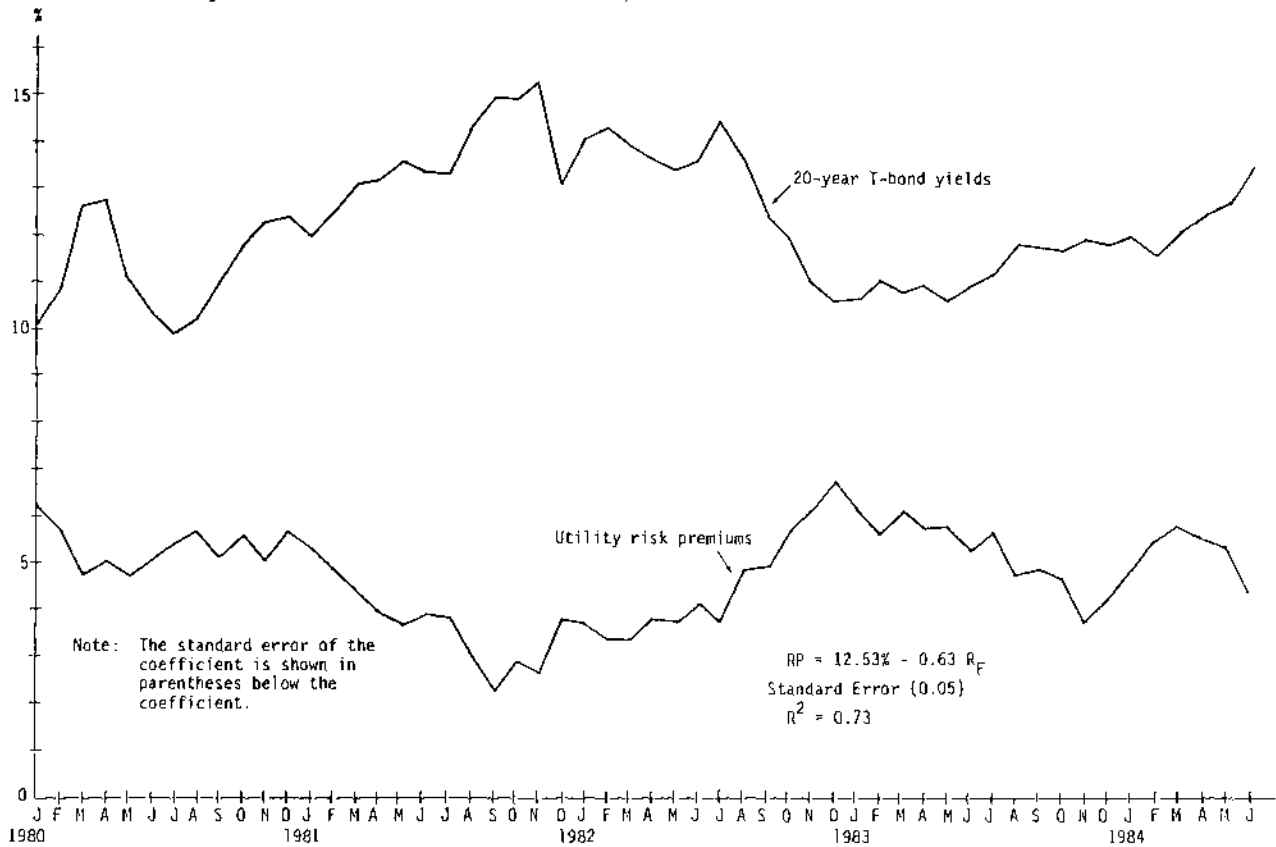
**Exhibit 4.** Estimated Monthly Risk Premiums for Electric Utilities Using Analysts' Growth Forecasts, January 1980-June 1984

Beginning of Month	Value Line	Merrill Lynch	Salomon Brothers	Average Premiums	20-Year Treasury Bond Yield, Constant Maturity Series	Beginning of Month	Value Line	Merrill Lynch	Salomon Brothers	Average Premiums	20-Year Treasury Bond Yield, Constant Maturity Series
Jan 1980	6.21%	NA	NA	6.21%	10.18%	Apr 1982	3.49%	3.61%	4.29%	3.80%	13.69%
Feb 1980	5.77%	NA	NA	5.77%	10.86%	May 1982	3.08%	4.25%	3.91%	3.75%	13.47%
Mar 1980	4.73%	NA	NA	4.73%	12.59%	Jun 1982	3.16%	4.51%	4.72%	4.13%	13.53%
Apr 1980	5.02%	NA	NA	5.02%	12.71%	Jul 1982	2.57%	4.21%	4.21%	3.66%	14.48%
May 1980	4.73%	NA	NA	4.73%	11.04%	Aug 1982	4.33%	4.83%	5.27%	4.81%	13.69%
Jun 1980	5.09%	NA	NA	5.09%	10.37%	Sep 1982	4.08%	5.14%	5.58%	4.93%	12.40%
Jul 1980	5.41%	NA	NA	5.41%	9.86%	Oct 1982	5.35%	5.24%	6.34%	5.64%	11.95%
Aug 1980	5.72%	NA	NA	5.72%	10.29%	Nov 1982	5.67%	5.95%	6.91%	6.18%	10.97%
Sep 1980	5.16%	NA	NA	5.16%	11.41%	Dec 1982	6.31%	6.71%	7.45%	6.82%	10.52%
Oct 1980	5.62%	NA	NA	5.62%	11.75%	Annual Avg.	4.00%	4.54%	5.01%	4.52%	13.09%
Nov 1980	5.09%	NA	NA	5.09%	12.33%	Jan 1983	5.64%	6.04%	6.81%	6.16%	10.66%
Dec 1980	5.65%	NA	NA	5.65%	12.37%	Feb 1983	4.68%	5.99%	6.10%	5.59%	11.01%
Annual Avg.	5.35%			5.35%	11.31%	Mar 1983	4.99%	6.89%	6.43%	6.10%	10.71%
Jan 1981	5.62%	4.76%	5.63%	5.34%	11.99%	Apr 1983	4.75%	5.82%	6.31%	5.63%	10.84%
Feb 1981	4.82%	4.87%	5.16%	4.95%	12.48%	May 1983	4.50%	6.41%	6.24%	5.72%	10.57%
Mar 1981	4.70%	3.73%	4.97%	4.47%	13.10%	Jun 1983	4.29%	5.21%	6.16%	5.22%	10.90%
Apr 1981	4.24%	3.23%	4.52%	4.00%	13.11%	Jul 1983	4.78%	5.72%	6.42%	5.64%	11.12%
May 1981	3.54%	3.24%	4.24%	3.67%	13.51%	Aug 1983	3.89%	4.74%	5.41%	4.68%	11.78%
Jun 1981	3.57%	4.04%	4.27%	3.96%	13.39%	Sep 1983	4.07%	4.90%	5.57%	4.85%	11.71%
Jul 1981	3.61%	3.63%	4.16%	3.80%	13.32%	Oct 1983	3.79%	4.64%	5.38%	4.60%	11.64%
Aug 1981	3.17%	3.05%	3.04%	3.09%	14.23%	Nov 1983	2.84%	3.77%	4.46%	3.69%	11.90%
Sep 1981	2.11%	2.24%	2.35%	2.23%	14.99%	Dec 1983	3.36%	4.27%	5.00%	4.21%	11.83%
Oct 1981	2.83%	2.64%	3.24%	2.90%	14.93%	Annual Avg.	4.30%	5.37%	5.86%	5.17%	11.22%
Nov 1981	2.08%	2.49%	3.03%	2.53%	15.27%	Jan 1984	4.06%	5.04%	5.65%	4.92%	11.97%
Dec 1981	3.72%	3.45%	4.24%	3.80%	13.12%	Feb 1984	4.25%	5.37%	5.96%	5.19%	11.76%
Annual Avg.	3.67%	3.45%	4.07%	3.73%	13.62%	Mar 1984	4.73%	6.05%	6.38%	5.72%	12.12%
Jan 1982	3.70%	3.37%	4.04%	3.70%	14.00%	Apr 1984	4.78%	5.33%	6.32%	5.48%	12.51%
Feb 1982	3.05%	3.37%	3.70%	3.37%	14.37%	May 1984	4.36%	5.30%	6.42%	5.36%	12.78%
Mar 1982	3.15%	3.28%	3.75%	3.39%	13.96%	Jun 1984	3.54%	4.00%	5.63%	4.39%	13.60%

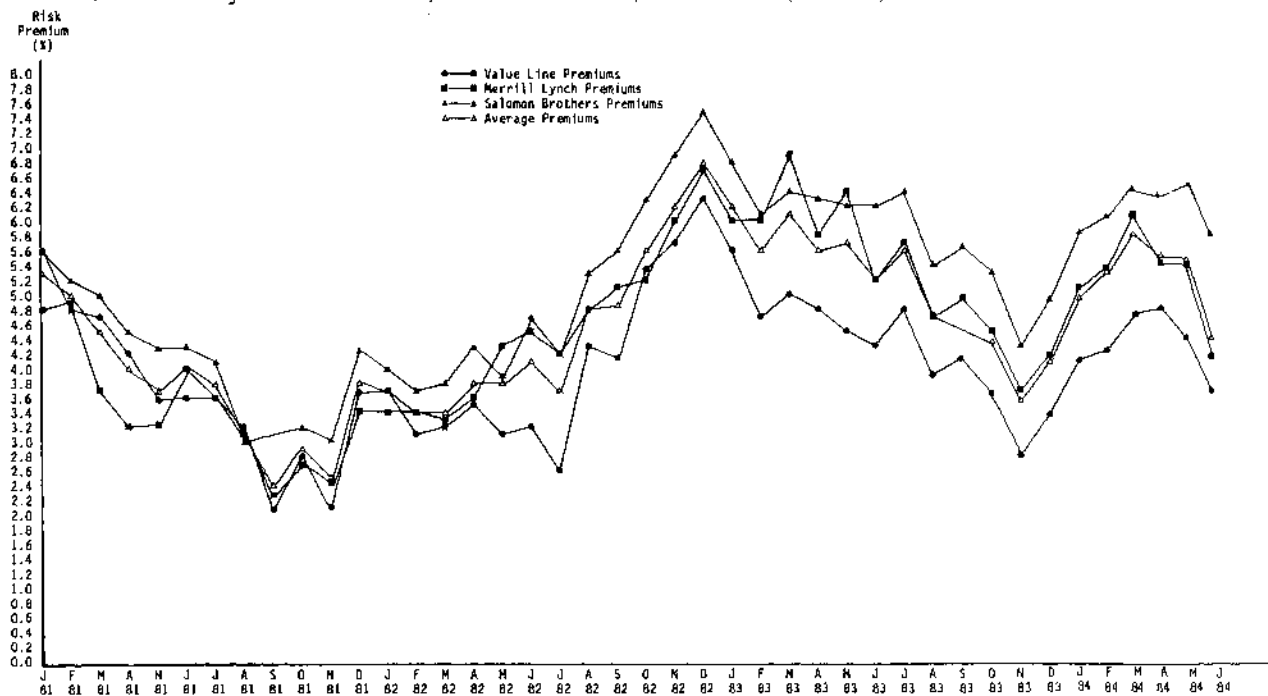
**Exhibit 5.** Monthly Risk Premiums Based on IBES Data

Beginning of Month	Average of Merrill Lynch, Salomon Brothers, and Value Line Premiums for Dow Jones Electrics	IBES Premiums for Dow Jones Electrics	IBES Premiums for Entire Electric Industry	Beginning of Month	Average of Merrill Lynch, Salomon Brothers, and Value Line Premiums for Dow Jones Electrics	IBES Premiums for Dow Jones Electrics	IBES Premiums for Entire Electric Industry
Aug 1983	4.68%	4.10%	4.16%	Feb 1984	5.19%	5.00%	4.36%
Sep 1983	4.85%	4.43%	4.27%	Mar 1984	5.72%	5.35%	4.45%
Oct 1983	4.60%	4.31%	3.90%	Apr 1984	5.48%	5.33%	4.23%
Nov 1983	3.69%	3.36%	3.36%	May 1984	5.36%	5.26%	4.30%
Dec 1983	4.21%	3.86%	3.54%	Jun 1984	4.39%	4.47%	3.40%
Jan 1984	4.92%	4.68%	4.18%	Average Premiums	4.83%	4.56%	4.01%

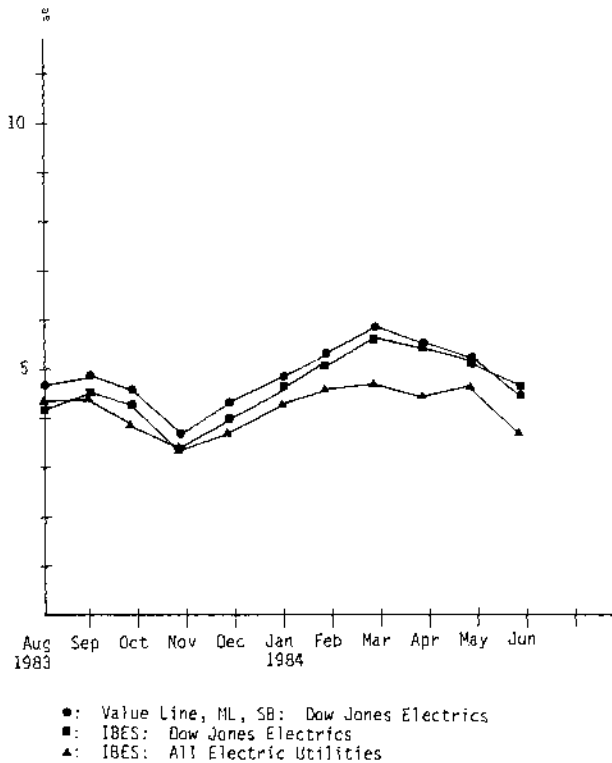
**Exhibit 6.** Utility Risk Premiums and Interest Rates, 1980–1984



**Exhibit 7.** Monthly Risk Premiums, Electric Utilities, 1981–1984 (to Date)



**Exhibit 8.** Comparative Risk Premium Data



do differ, the differences are not large given the nature of the estimates, and the premiums follow one another closely over time. Since all of the analysts are examining essentially the same data and since utility companies are not competitive with one another, and hence have relatively few secrets, the similarity among the analysts' forecasts is not surprising.

- The IBES data, presented in Exhibit 5 and plotted in Exhibit 8, contain too few observations to enable us to draw strong conclusions, but (i) the Dow Jones Electrics risk premiums based on our three-analyst data have averaged 27 basis points above premiums based on the larger group of analysts surveyed by IBES and (ii) the premiums on the 11 Dow Jones Electrics have averaged 54 basis points higher than premiums for the entire utility industry followed by IBES. Given the variability in the data, we are, at this point, inclined to attribute these differences to random fluctuations, but as more data become available, it may turn out that the differences are statistically significant. In particular, the 11 electric utilities included in the Dow

Jones Utility Index all have large nuclear investments, and this may cause them to be regarded as riskier than the industry average, which includes both nuclear and non-nuclear companies.

### Tests of the Reasonableness of the Risk Premium Estimates

So far our claims to the reasonableness of our risk-premium estimates have been based on the reasonableness of our variable measures, particularly the measures of expected dividend growth rates. Essentially, we have argued that since there is strong evidence in the literature in support of analysts' forecasts, risk premiums based on these forecasts are reasonable. In the spirit of positive economics, however, it is also important to demonstrate the reasonableness of our results more directly.

It is theoretically possible to test for the validity of the risk-premium estimates in a CAPM framework. In a cross-sectional estimate of the CAPM equation,

$$(k - R_F)_i = \alpha_0 + \alpha_1 \beta_i + u_i, \quad (5)$$

we would expect

$$\hat{\alpha}_0 = 0 \text{ and } \hat{\alpha}_1 = k_M - R_F = \text{Market risk premium.}$$

This test, of course, would be a joint test of both the CAPM and the reasonableness of our risk-premium estimates. There is a great deal of evidence that questions the empirical validity of the CAPM, especially when applied to regulated utilities. Under these conditions, it is obvious that no unambiguous conclusion can be drawn regarding the efficacy of the premium estimates from such a test.<sup>8</sup>

A simpler and less ambiguous test is to show that the risk premiums are higher for lower rated firms than for higher rated firms. Using 1984 data, we classified the

<sup>8</sup>We carried out the test on a monthly basis for 1984 and found positive but statistically insignificant coefficients. A typical result (for April 1984) follows:

$$(k - R_F)_i = 3.1675 + 1.8031 \beta_i$$

(0.91)            (1.44)

The figures in parentheses are standard errors. Utility risk premiums do increase with betas, but the intercept term is not zero as the CAPM would predict, and  $\alpha_1$  is both less than the predicted value and not statistically significant. Again, the observation that the coefficients do not conform to CAPM predictions could be as much a problem with CAPM specification for utilities as with the risk premium estimates.

A similar test was carried out by Friend, Westerfield, and Granito [9]. They tested the CAPM using expectational (survey) data rather than *ex post* holding period returns. They actually found their coefficient of  $\beta_i$  to be negative in all their cross-sectional tests.

**Exhibit 9.** Relationship between Risk Premiums and Bond Ratings, 1984\*

Month	Aaa/AA	AA	Aa/A	A	A/BBB	BBB	Below BBB
January†	—	2.61%	3.06%	3.70%	5.07%	4.90%	9.45%
February	2.98%	3.17%	3.36%	4.03%	5.26%	5.14%	7.97%
March	2.34%	3.46%	3.29%	4.06%	5.43%	5.02%	8.28%
April	2.37%	3.03%	3.29%	3.88%	5.29%	4.97%	6.96%
May	2.00%	2.48%	3.42%	3.72%	4.72%	6.64%	8.81%
June	0.72%	2.17%	2.46%	3.16%	3.76%	5.00%	5.58%
Average	2.08%	2.82%	3.15%	3.76%	4.92%	5.28%	7.84%

\*The risk premiums are based on IBES data for the electric utilities followed by both IBES and Salomon Brothers. The number of electric utilities followed by both firms varies from month to month. For the period between January and June 1984, the number of electric utilities followed by both firms ranged from 96 to 99 utilities.

†In January, there were no Aaa/AA companies. Subsequently, four utilities were upgraded to Aaa/AA.

utility industry into risk groups based on bond ratings. For each rating group, we estimated the average risk premium. The results, presented in Exhibit 9, clearly show that the lower the bond rating, the higher the risk premiums. Our premium estimates therefore would appear to pass this simple test of reasonableness.

### Risk Premiums and Interest Rates

Traditionally, stocks have been regarded as being riskier than bonds because bondholders have a prior claim on earnings and assets. That is, stockholders stand at the end of the line and receive income and/or assets only after the claims of bondholders have been satisfied. However, if interest rates fluctuate, then the holders of long-term bonds can suffer losses (either realized or in an opportunity cost sense) even though they receive all contractually due payments. Therefore, if investors' worries about "interest rate risk" versus "earning power risk" vary over time, then perceived risk differentials between stocks and bonds, and hence risk premiums, will also vary.

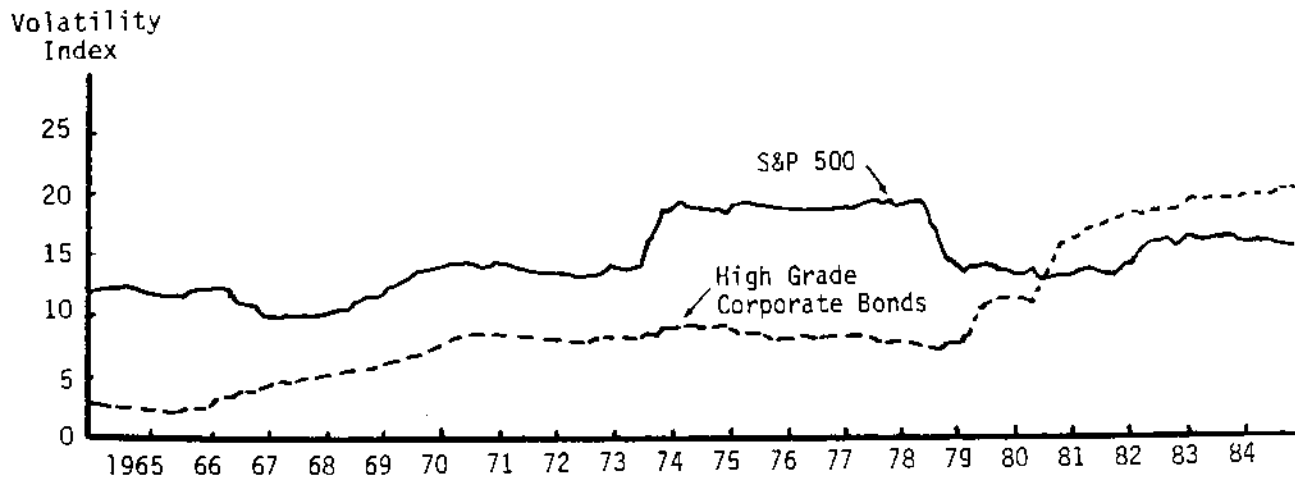
Any number of events could occur to cause the perceived riskiness of stocks versus bonds to change, but probably the most pervasive factor, over the 1966–1984 period, is related to inflation. Inflationary expectations are, of course, reflected in interest rates. Therefore, one might expect to find a relationship between risk premiums and interest rates. As we noted in our discussion of Exhibit 3, risk premiums were positively correlated with interest rates from 1966 through 1979, but, beginning in 1980, the relationship turned negative. A possible explanation for this change is given next.

**1966–1979 Period.** During this period, inflation heated up, fuel prices soared, environmental problems

surfaced, and demand for electricity slowed even as expensive new generating units were nearing completion. These cost increases required offsetting rate hikes to maintain profit levels. However, political pressure, combined with administrative procedures that were not designed to deal with a volatile economic environment, led to long periods of "regulatory lag" that caused utilities' earned ROEs to decline in absolute terms and to fall far below the cost of equity. These factors combined to cause utility stockholders to experience huge losses: S&P's Electric Index dropped from a mid-1960s high of 60.90 to a mid-1970s low of 20.41, a decrease of 66.5%. Industrial stocks also suffered losses during this period, but, on average, they were only one third as severe as the utilities' losses. Similarly, investors in long-term bonds had losses, but bond losses were less than half those of utility stocks. Note also that, during this period, (i) bond investors were able to reinvest coupons and maturity payments at rising rates, whereas the earned returns on equity did not rise, and (ii) utilities were providing a rising share of their operating income to debtholders versus stockholders (interest expense/book value of debt was rising, while net income/common equity was declining). This led to a widespread belief that utility commissions would provide enough revenues to keep utilities from going bankrupt (barring a disaster), and hence to protect the bondholders, but that they would not necessarily provide enough revenues either to permit the expected rate of dividend growth to occur or, perhaps, even to allow the dividend to be maintained.

Because of these experiences, investors came to regard inflation as having a more negative effect on utility stocks than on bonds. Therefore, when fears of inflation increased, utilities' measured risk premiums

**Exhibit 10.** Relative Volatility\* of Stocks and Bonds, 1965–1984



\*Volatility is measured as the standard deviation of total returns over the last 5 years.  
 Source: Merrill Lynch, *Quantitative Analysis*, May/June 1984.

also increased. A regression over the period 1966–1979, using our Exhibit 2 data, produced this result:

$$RP = 0.30\% + 0.73 R_F; \quad r^2 = 0.48. \\ (0.22)$$

This indicates that a one percentage point increase in the Treasury bond rate produced, on average, a 0.73 percentage point increase in the risk premium, and hence a  $1.00 + 0.73 = 1.73$  percentage point increase in the cost of equity for utilities.

**1980–1984 Period.** The situation changed dramatically in 1980 and thereafter. Except for a few companies with nuclear construction problems, the utilities' financial situations stabilized in the early 1980s, and then improved significantly from 1982 to 1984. Both the companies and their regulators were learning to live with inflation; many construction programs were completed; regulatory lags were shortened; and in general the situation was much better for utility equity investors. In the meantime, over most of the 1980–1984 period, interest rates and bond prices fluctuated violently, both in an absolute sense and relative to common stocks. Exhibit 10 shows the volatility of corporate bonds very clearly. Over most of the eighteen-year period, stock returns were much more volatile than returns on bonds. However, that situation changed in October 1979, when the Fed began to focus

on the money supply rather than on interest rates.<sup>4</sup>

In the 1980–1984 period, an increase in inflationary expectations has had a more adverse effect on bonds than on utility stocks. If the expected rate of inflation increases, then interest rates *will increase* and bond prices *will fall*. Thus, uncertainty about inflation translates directly into risk in the bond markets. The effect of inflation on stocks, including utility stocks, is less clear. If inflation increases, then utilities should, in theory, be able to obtain rate increases that would offset increases in operating costs and also compensate for the higher cost of equity. Thus, with "proper" regulation, utility stocks would provide a better hedge against unanticipated inflation than would bonds. This hedge did not work at all well during the 1966–1979 period, because inflation-induced increases in operating and capital costs were not offset by timely rate increases. However, as noted earlier, both the utilities and their regulators seem to have learned to live better with inflation during the 1980s.

Since inflation is today regarded as a major investment risk, and since utility stocks now seem to provide a better hedge against unanticipated inflation than do

<sup>4</sup>Because the standard deviations in Exhibit 10 are based on the last five years of data, even if bond returns stabilize, as they did beginning in 1982, their reported volatility will remain high for several more years. Thus, Exhibit 10 gives a rough indication of the current relative riskiness of stocks versus bonds, but the measure is by no means precise or necessarily indicative of future expectations.

bonds, the interest-rate risk inherent in bonds offsets, to a greater extent than was true earlier, the higher operating risk that is inherent in equities. Therefore, when inflationary fears rise, the perceived riskiness of bonds rises, helping to push up interest rates. However, since investors are today less concerned about inflation's impact on utility stocks than on bonds, the utilities' cost of equity does not rise as much as that of debt, so the observed risk premium tends to fall.

For the 1980-1984 period, we found the following relationship (see Exhibit 6):

$$RP = 12.53\% - 0.63 R_{pi}; \quad r^2 = 0.73.$$

(0.05)

Thus, a one percentage point increase in the T-bond rate, on average, caused the risk premium to fall by 0.63%, and hence it led to a  $1.00 - 0.63 = 0.37$  percentage point increase in the cost of equity to an average utility. This contrasts sharply with the pre-1980 period, when a one percentage point increase in interest rates led, on average, to a 1.73 percentage point increase in the cost of equity.

### Summary and Implications

We began by reviewing a number of earlier studies. From them, we concluded that, for cost of capital estimation purposes, risk premiums must be based on expectations, not on past realized holding period returns. Next, we noted that expectational risk premiums may be estimated either from surveys, such as the ones Charles Benore has conducted, or by use of DCF techniques. Further, we found that, although growth rates for use in the DCF model can be either developed from time-series data or obtained from security analysts, analysts' growth forecasts are more reflective of investors' views, and, hence, in our opinion are preferable for use in risk-premium studies.

Using analysts' growth rates and the DCF model, we estimated risk premiums over several different periods. From 1966 to 1984, risk premiums for both electric utilities and industrial stocks varied widely from year to year. Also, during the first half of the period, the utilities had smaller risk premiums than the industrials, but after the mid-1970s, the risk premiums for the two groups were, on average, about equal.

The effects of changing interest rates on risk premiums shifted dramatically in 1980, at least for the utilities. From 1965 through 1979, inflation generally had a more severe adverse effect on utility stocks than on bonds, and, as a result, an increase in inflationary expectations, as reflected in interest rates, caused an

increase in equity risk premiums. However, in 1980 and thereafter, rising inflation and interest rates increased the perceived riskiness of bonds more than that of utility equities, so the relationship between interest rates and utility risk premiums shifted from positive to negative. Earlier, a 1.00 percentage point increase in interest rates had led, on average, to a 1.73% increase in the utilities' cost of equity, but after 1980 a 1.00 percentage point increase in the cost of debt was associated with an increase of only 0.37% in the cost of equity.

Our study also has implications for the use of the CAPM to estimate the cost of equity for utilities. The CAPM studies that we have seen typically use either Ibbotson-Sinquefeld or similar historic holding period returns as the basis for estimating the market risk premium. Such usage implicitly assumes (i) that *ex post* returns data can be used to proxy *ex ante* expectations and (ii) that the market risk premium is relatively stable over time. Our analysis suggests that neither of these assumptions is correct; at least for utility stocks, *ex post* returns data do not appear to be reflective of *ex ante* expectations, and risk premiums are volatile, not stable.

Unstable risk premiums also make us question the FERC and FCC proposals to estimate a risk premium for the utilities every two years and then to add this premium to a current Treasury bond rate to determine a utility's cost of equity. Administratively, this proposal would be easy to handle, but risk premiums are simply too volatile to be left in place for two years.

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# Estimating Shareholder Risk Premia Using Analysts' Growth Forecasts

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■ One of the most widely used concepts in finance is that shareholders require a risk premium over bond yields to bear the additional risks of equity investments. While models such as the two-parameter capital asset pricing model (CAPM) or arbitrage pricing theory offer explicit methods for varying risk premia across securities, the models are invariably linked to some underlying market (or factor-specific) risk premium. Unfortunately, the theoretical models provide limited practical advice on establishing empirical estimates of such a benchmark market risk premium. As a result, the typical advice to practitioners is to estimate the market risk premium based on historical realizations of share and bond returns (see Brealey and Myers [3]).

In this paper, we present estimates of shareholder required rates of return and risk premia which are derived

using forward-looking analysts' growth forecasts. We update, through 1991, earlier work which, due to data availability, was restricted to the period 1982-1984 (Harris [12]). Using stronger tests, we also reexamine the efficacy of using such an expectational approach as an alternative to the use of historical averages. Using the S&P 500 as a proxy for the market portfolio, we find an average market risk premium (1982-1991) of 6.47% above yields on long-term U.S. government bonds and 5.13% above yields on corporate bonds. We also find that required returns for individual stocks vary directly with their risk (as proxied by beta) and that the market risk premium varies over time. In particular, the equity market premium over government bond yields is higher in low interest rate environments and when there is a larger spread between corporate and government bond yields. These findings show that, in addition to fitting the theoretical requirement of being forward-looking, the utilization of analysts' forecasts in estimating return requirements provides reasonable empirical results that can be useful in practical applications.

Section I provides background on the estimation of equity required returns and a brief discussion of related

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literature on financial analysts' forecasts (FAF). In Section II, models and data are discussed. Following a comparison of the results to historical risk premia, the estimates are subjected to economic tests of both their time-series and cross-sectional characteristics in Section III. Finally, conclusions are offered in Section IV.

## I. Background and Literature Review

In establishing economic criteria for resource allocation, it is often convenient to use the notion of a shareholder's required rate of return. Such a rate ( $k$ ) is the minimum level of expected return necessary to compensate the investor for bearing risks and receiving dollars in the future rather than in the present. In general,  $k$  will depend on returns available on alternative investments (e.g., bonds or other equities) and the riskiness of the stock. To isolate the effects of risk, it is useful to work in terms of a risk premium ( $rp$ ), defined as

$$rp = k - i, \quad (1)$$

where  $i$  = required return for a zero risk investment.<sup>1</sup>

Lacking a superior alternative, investigators often use averages of historical realizations to estimate a benchmark "market" risk premium which then may be adjusted for the relative risk of individual stocks (e.g., using the CAPM or a variant). The historical studies of Ibbotson Associates [13] have been used frequently to implement this approach.<sup>2</sup> This historical approach requires the assumptions that past realizations are a good surrogate for future expectations and, as typically applied, that risk premia are constant over time. Carleton and Lakonishok [5] demonstrate empirically some of the problems with such historical premia when they are disaggregated for different time periods or groups of firms.

As an alternative to historical estimates, the current paper derives estimates of  $k$ , and hence, implied values of  $rp$ , using publicly available expectational data. This expectational approach employs the dividend growth model (hereafter referred to as the discounted cash flow or DCF model) in which a consensus measure of financial analysts' forecasts (FAF) of earnings is used as a proxy for investor expectations. Earlier works by Malkiel [17], Brigham,

Vinson, and Shome [4], and Harris [12] have used FAF in DCF models, and this approach has been employed in regulatory settings (see Harris [12]) and suggested by consultants as an alternative to use of historical data (e.g., Ibbotson Associates [13, pp. 127, 128]). Unfortunately, the published studies use data extending to 1984 at the latest. Our paper draws on this earlier work but extends it through 1991.<sup>3</sup> Our work is closest to that done by Harris [12], who reviews literature showing a strong link between equity prices and FAF and supporting the use of FAF as a proxy for investor expectations. Using data from 1982 to 1984, Harris' results suggest that this expectational approach to estimating equity risk premia is an encouraging alternative to the use of historical averages. He also demonstrates that such risk premia vary both cross-sectionally with the riskiness of individual stocks and over time with financial market conditions.

## II. Models and Data

### A. Model for Estimation

The simplest and most commonly used version of the DCF model to estimate shareholders' required rate of return,  $k$ , is shown in Equation (2):

$$k = \left( \frac{D_1}{P_0} \right) + g, \quad (2)$$

where  $D_1$  = dividend per share expected to be received at time one,  $P_0$  = current price per share (time 0), and  $g$  = expected growth rate in dividends per share. The limitations of this model are well known, and it is straightforward to derive expressions for  $k$  based on more general specifications of the DCF model.<sup>4</sup> The primary difficulty in using the DCF model is obtaining an estimate of  $g$ , since it should reflect market expectations of future perfor-

<sup>3</sup>See Harris [12] for a discussion of the earlier work and a detailed discussion of the approach employed here.

<sup>4</sup>As stated, Equation (2) requires expectations of either an infinite horizon of dividend growth at a rate  $g$  or a finite horizon of dividend growth at rate  $g$  and special assumptions about the price of the stock at the end of that horizon. Essentially, the assumption must ensure that the stock price grows at a compound rate of  $g$  over the finite horizon. One could alternatively estimate a nonconstant growth model, although the proxies for multistage growth rates are even more difficult to obtain than single stage growth estimates. Marston, Harris, and Crawford [19] examine publicly available data from 1982-1985 and find that plausible measures of risk are more closely related to expected returns derived from a constant growth model than to those derived from multistage growth models. These findings illustrate empirical difficulties in finding empirical proxies for multistage growth models for large samples.

<sup>1</sup>Theoretically,  $i$  is a risk-free rate, though empirically its proxy (e.g., yield to maturity on a government bond) is only a "least risk" alternative that is itself subject to risk. In this development, the effects of tax codes on required returns are ignored.

<sup>2</sup>Many leading texts in financial management use such historical risk premia to estimate a market return. See, for example, Brealey and Myers [3]. Often a market risk premium is adjusted for the observed relative risk of a stock.

mance. Without a ready source for measuring such expectations, application of the DCF model is fraught with difficulties. This paper uses published FAF of long-run growth in earnings as a proxy for  $g$ .

### B. Data

FAF for this research come from IBES (Institutional Broker's Estimate System), which is a product of Lynch, Jones, and Ryan, a major brokerage firm.<sup>5</sup> Representative of industry practice, IBES contains estimates of (i) EPS for the upcoming fiscal years (up to five separate years), and (ii) a five-year growth rate in EPS. Each item is available at monthly intervals.

The mean value of individual analysts' forecasts of five-year growth rate in EPS will be used as a proxy for  $g$  in the DCF model.<sup>6</sup> The five-year horizon is the longest horizon over which such forecasts are available from IBES and often is the longest horizon used by analysts. IBES requests "normalized" five-year growth rates from analysts in order to remove short-term distortions that might stem from using an unusually high or low earnings year as a base.

Dividend and other firm-specific information come from COMPUSTAT. Interest rates (both government and corporate) are gathered from Federal Reserve Bulletins and *Moody's Bond Record*. Exhibit 1 describes key variables used in the study. Data collected cover all dividend paying stocks in the Standard & Poor's 500 stock (S&P 500) index, plus approximately 100 additional stocks of regulated companies. Since five-year growth rates are first available from IBES beginning in 1982, the analysis covers the 113-month period from January 1982 to May 1991.

## III. Risk Premia and Required Rates of Return

### A. Construction of Risk Premia

For each month, a "market" required rate of return is calculated using each dividend paying stock in the S&P 500 index for which data are available. The DCF model in

<sup>5</sup>Harris [12] provides a discussion of IBES data and its limitations. In more recent years, IBES has begun collecting forecasts for each of the next five years. Since this work was completed, the FAF used here have become available from IBES Inc., now a subsidiary of CitiBank.

<sup>6</sup>While the model calls for expected growth in dividends, no source of data on such projections is readily available. In addition, in the long run, dividend growth is sustainable only via growth in earnings. As long as payout ratios are not expected to change, the two growth rates will be the same.

### Exhibit 1. Variable Definitions

$k$	=	Equity required rate of return.
$P_0$	=	Average daily price per share.
$D_1$	=	Expected dividend per share measured as current indicated annual dividend from COMPUSTAT multiplied by $(1 + g)$ . <sup>a</sup>
$g$	=	Average financial analysts' forecast of five-year growth rate in earnings per share (from IBES).
$i_t$	=	Yield to maturity on long-term U.S. government obligations (source: Federal Reserve Bulletin, constant maturity series).
$i_c$	=	Yield to maturity on long-term corporate bonds: Moody's average. <sup>b</sup>
$rp$	=	Equity risk premium calculated as $rp = k - i$ .
$\beta$	=	beta, calculated from CRSP monthly data over 60 months.

#### Notes:

<sup>a</sup>See footnote 7 for a discussion of the  $(1 + g)$  adjustment.

<sup>b</sup>The average corporate bond yield across bond rating categories as reported by Moody's. See *Moody's Bond Survey* for a brief description and the latest published list of bonds included in the bond rating categories.

Equation (2) is applied to each stock and the results weighted by market value of equity to produce the market required return.<sup>7</sup> The return is converted to a risk premium

<sup>7</sup>The construction of  $D_1$  is controversial since dividends are paid quarterly and may be expected to change during the year; whereas, Equation (2), as is typical, is being applied to annual data. Both the quarterly payment of dividends (due to investors' reinvestment income before year's end, see Linke and Zumwalt [15]) and any growth during the year require an upward adjustment of the current annual rate of dividends to construct  $D_1$ . If quarterly dividends grow at a constant rate, both factors could be accommodated straightforwardly by applying Equation (2) to quarterly data with a quarterly growth rate and then annualizing the estimated quarterly required return. Unfortunately, with lumpy changes in dividends, the precise nature of the adjustment depends on both an individual company's pattern of growth during the calendar year and an individual company's required return (and hence reinvestment income in the risk class).

In this work,  $D_1$  is calculated as  $D_0(1 + g)$ . The full  $g$  adjustment is a crude approximation to adjust for both growth and reinvestment income. For example, if one expected dividends to have been raised, on average, six months ago, a "1/2  $g$ " adjustment would allow for growth, and the remaining "1/2  $g$ " would be justified on the basis of reinvestment income. Any precise accounting for both reinvestment income and growth would require tracking each company's dividend change history and making explicit judgments about the quarter of the next change. Since no organized "market" forecast of such a detailed nature exists, such a procedure is not possible. To get a feel for the magnitudes involved, during the sample period the dividend yield ( $D_1/P_0$ ) and growth (market value weighted) for the S&P 500 were typically 4% to 6% and 11% to 13%, respectively. As a result, a "full  $g$ " adjustment on average increases the required return by 60 to 70 basis points (relative to no  $g$  adjustment).

**Exhibit 2. Bond Market Yields, Equity Required Return, and Equity Risk Premium,<sup>a</sup> 1982-1991**

Year	Bond Market Yields <sup>b</sup>		Equity Market Required Return <sup>c</sup>	Equity Risk Premium	
	(1) U.S. Gov't	(2) Moody's Corporates	(3) S&P 500	U.S. Gov't (3) - (1)	Moody's Corporates (3) - (2)
1982	12.92	14.94	20.08	7.16	5.14
1983	11.34	12.78	17.89	6.55	5.11
1984	12.48	13.49	17.26	4.78	3.77
1985	10.97	12.05	16.32	5.37	4.28
1986	7.85	9.71	15.09	7.24	5.38
1987	8.58	9.84	14.71	6.13	4.86
1988	8.96	10.18	15.37	6.41	5.19
1989	8.46	9.66	15.06	6.60	5.40
1990	8.61	9.77	15.69	7.08	5.92
1991 <sup>d</sup>	8.21	9.41	15.61	7.40	6.20
Average <sup>e</sup>	9.84	11.18	16.31	6.47	5.13

**Notes:**<sup>a</sup>Values are averages of monthly figures in percent.<sup>b</sup>Yields to maturity.<sup>c</sup>Required return on value weighted S&P 500 index using Equation (1).<sup>d</sup>Figures for 1991 are through May.<sup>e</sup>Months weighted equally.

over government bonds by subtracting  $i_{lt}$ , the yield to maturity on long-term government bonds. A risk premium over corporate bond yields is also constructed by subtracting  $i_c$ , the yield on long-term corporate bonds. Exhibit 2 reports the results by year (averages of monthly data).

The results are quite consistent with the patterns reported earlier (i.e., Harris [12]). The estimated risk premia in Exhibit 2 are positive, consistent with equity owners demanding additional rewards over and above returns on debt securities. The average expectational risk premium (1982 to 1991) over government bonds is 6.47%, only slightly higher than the 6.16% average for 1982 to 1984 reported earlier (Harris [12]). Furthermore, Exhibit 2 shows the estimated risk premia change over time, suggesting changes in the market's perception of the incremental risk of investing in equity rather than debt securities.

For comparison purposes, Exhibit 3 contains historical returns and risk premia. The average expectational risk premium reported in Exhibit 2 falls roughly midway between the arithmetic (7.5%) and geometric (5.7%) long-term differentials between returns on stocks and long-term government bonds. Note, however, that the expectational risk premia appear to change over time. In the following

sections, we examine the estimated risk premia to see if they vary cross-sectionally with the risk of individual stocks and over time with financial market conditions.

**B. Cross-Sectional Tests**

Earlier, Harris [12] conducted crude tests of whether expectational equity risk premia varied with risk proxied by bond ratings and the dispersion of analysts' forecasts and found that required returns increased with higher risk. Here we examine the link between these premia and beta, perhaps the most commonly used measure of risk for equities.<sup>8</sup> In keeping with traditional work in this area, we adopt the methodology introduced by Fama and Macbeth [9] but replace realized returns with expected returns from Equation (2) as the variable to be explained. For this portion of our tests, we restrict our sample to 1982-1987

<sup>8</sup>For other efforts using expectational data in the context of the two-parameter CAPM, see Friend, Westerfield, and Granito [10], Cragg and Malkiel [7], Marston, Crawford, and Harris [19], Marston and Harris [20], and Linke, Kannan, Whitford, and Zumwalt [16]. For a more complete treatment of the subject, see Marston and Harris [20] from which we draw some of these results. Marston and Harris also investigate the role of unsystematic risk and the difference in estimates found when using expected versus realized returns.

**Exhibit 3.** Average Historical Returns on Bonds, Stocks, Bills, and Inflation in the U.S., 1926-1989

Historical Return Realizations	Geometric	Arithmetic
Common stock	10.3%	12.4%
Long-term government bonds	4.6%	4.9%
Long-term corporate bonds	5.2%	5.5%
Treasury bills	3.6%	3.7%
Inflation rate	3.1%	3.2%

Source: Ibbotson Associates, Inc., *1990 Stocks, Bonds, Bills and Inflation*, 1990 Yearbook.

and in any month include firms that have at least three forecasts of earnings growth to reduce measurement error associated with individual forecasts.<sup>9</sup> This restricted sample still consists of, on average, 399 firms for each of the 72 months (or 28,744 company months).

For a given company in a given month, beta is estimated via the market model (using ordinary least squares) on the prior 60 months of return data taken from CRSP. Beta estimates are updated monthly and are calculated against an equally weighted index of all NYSE securities. For each month, we aggregate firms into 20 portfolios (consisting of approximately 20 securities each). The advantage of grouped data is the reduction in potential measurement error inherent in independent variables at the company level. Portfolios are formed based on a ranking of beta estimated from a prior time period ( $t = -61$  to  $t = -120$ ). Portfolio expected returns and beta are calculated as the simple averages for the individual securities.

Using these data, we estimate the following model for each of the 72 months:

$$R_p = \alpha_0 + \alpha_1 \beta_p + u_p, \quad p = 1 \dots 20, \quad (3)$$

where:

- $R_p$  = Expected return for portfolio  $p$  in the given month,
- $\beta_p$  = Portfolio beta, estimated over 60 prior months, and
- $u_p$  = A random error term with mean zero.

As a result of estimating regression (3) for each month, 72 estimates of each coefficient ( $\alpha_0$  and  $\alpha_1$ ) are obtained.

<sup>9</sup>Firms for which the standard deviation of individual FAF exceeded 20 in any month were excluded since we suspect some of these involve errors in data entry. This screen eliminated very few companies in any month. The 1982-1987 period was chosen due to the availability of data on betas.

Using realized returns as the dependent variable, the traditional approach (e.g., Fama and Macbeth [9]) is to assume that realized returns are a fair game. Given this assumption, the mean of the 72 values of each coefficient is an unbiased estimate of the mean over that same time period if one could have actually used expected returns as the dependent variable. Note that if expected returns are used as the dependent variable the fair-game assumption is not required. Making the additional assumption that the true value of the coefficient is constant over the 72 months, a test of whether the mean coefficient is different from zero is performed using a  $t$ -statistic where the denominator is the standard error of the 72 values of the coefficient. This is the technique employed by Fama and Macbeth [9]. If one assumes the CAPM is correct, the coefficient  $\alpha_1$  is an empirical estimate of the market risk premium, which should be positive.

To test the sensitivity of the results, we also repeat our procedures using individual security returns rather than portfolios. To account, at least in part, for differences in precision of coefficient estimates in different months we also report results in which monthly parameter estimates are weighted inversely by the standard error of the coefficient estimate rather than being weighted equally (following Chan, Hamao, and Lakonishok [6]).

Exhibit 4 shows that there is a significant positive link between expectational required returns and beta. For instance, in Panel A, the mean coefficient of 2.78 on beta is significantly different from zero at better than the 0.001 level ( $t = 35.31$ ), and each of the 72 monthly coefficients going into this average is positive (as shown by that 100% positive figure). Using individual stock returns, the significant positive link between beta and expected return remains, though it is smaller in magnitude than for portfolios.<sup>10</sup> Comparison of Panels A and B shows that the results are not sensitive to the weighting of monthly coefficients.

While the findings in Exhibit 4 suggest a strong positive link between beta and risk premia (a result often not supported when realized returns are used as a proxy for expectations; e.g., see Tinic and West [22]), the results do not support the predictions of a simple CAPM. In particular, the intercept is higher than a proxy for the risk-free rate over the sample period and the coefficient of beta is well below estimates of a market risk premium obtained from either expectational (Exhibit 2) or historical data (Exhibit

<sup>10</sup>The smaller coefficients on beta using individual stock portfolio returns are likely due in part to the higher measurement error in measuring individual stock versus portfolio betas.

**Exhibit 4.** Mean Values of Monthly Parameter Estimates for the Relationship Between Required Returns and Beta for Both Portfolios and Individual Securities (Figures in Parentheses are *t* Values and Percent Positive), 1982-1987

<i>Panel A. Equal Weighting<sup>a</sup></i>				
	Intercept	B	Adjusted $R^2$ <sup>c</sup>	F <sup>c</sup>
Portfolio returns	14.06 (54.02, 100)	2.78 (35.31, 100)	0.503	25.4
Security returns	14.77 (58.10, 100)	1.91 (16.50, 99)	0.080	39.0
<i>Panel B. Weighted by Standard Errors<sup>b</sup></i>				
Portfolio returns	13.86 (215.6, 100)	2.67 (35.80, 100)	0.503	25.4
Security returns	14.63 (398.9, 100)	1.92 (47.3, 99)	0.080	39.0

<sup>a</sup>Equally weighted average of monthly parameters estimated using cross-sectional data for each of the 72 months, January 1982 - December 1987.

<sup>b</sup>In obtaining the reported means, estimates of the monthly intercept and slope coefficients are weighted inversely by the standard error of the estimate from the cross-sectional regression for that month.

<sup>c</sup>Values are averages for the 72 monthly regressions.

3).<sup>11</sup> Nonetheless, the results show that the estimated risk premia conform to the general theoretical relationship between risk and required return that is expected when investors are risk-averse.

### C. Time Series Tests — Changes in Market Risk Premia

A potential benefit of using ex ante risk premia is the estimation of changes in market risk premia over time. With changes in the economy and financial markets, equity investments may be perceived to change in risk. For instance, investor sentiment about future business conditions likely affects attitudes about the riskiness of equity investments compared to investments in the bond markets. Moreover, since bonds are risky investments themselves, equity risk premia (relative to bonds) could change due to changes in perceived riskiness of bonds, even if equities displayed no shifts in risk. For example, during the high interest rate period of the early 1980s, the high level of interest rate volatility made fixed income investments more risky holdings than they were in a world of relatively stable rates.

<sup>11</sup>Estimation difficulties confound precise interpretation of the intercept as the risk-free rate and the coefficient on beta as the market risk premium (see Miller and Scholes [21], and Black, Jensen, and Scholes [2]). The higher than expected intercept and lower than expected slope coefficient on beta are consistent with the prior studies of Black, Jensen, and Scholes [2], and Fama and MacBeth [9] using historical returns. Such results are consistent with Black's [1] zero beta model, although alternative explanations for these findings exist as well (as noted by Black, Jensen, and Scholes [2]).

Studying changes in risk premia for utility stocks, Brigham, et al [4] conclude that, prior to 1980, utility risk premia increased with the level of interest rates, but that this pattern reversed thereafter, resulting in an inverse correlation between risk premia and interest rates. Studying risk premia for both utilities and the equity market generally, Harris [12] also reports that risk premia appear to change over time. Specifically, he finds that equity risk premia decreased with the level of government interest rates, increased with the increases in the spread between corporate and government bond yields, and increased with increases in the dispersion of analysts' forecasts. Harris' study is, however, restricted to the 36-month period, 1982 to 1984.

Exhibit 5 reports results of analyzing the relationship between equity risk premia, interest rates, and yield spreads between corporate and government bonds. Following Harris [12], these bond yield spreads are used as a time series proxy for equity risk. As the perceived riskiness of corporate activity increases, the difference between yields on corporate bonds and government bonds should increase. One would expect the sources of increased riskiness to corporate bonds to also increase risks to shareholders. All regressions in Exhibit 5 are corrected for serial correlation.<sup>12</sup>

<sup>12</sup>Ordinary least squares regressions showed severe positive autocorrelation in many cases, with Durbin Watson statistics typically below one. Estimation used the Prais-Winsten method. See Johnston [14, pp. 321-325].

**Exhibit 5.** Changes in Equity Risk Premia Over Time — Entries are Coefficient (*t*-value); Dependent Variable is Equity Risk Premium

Time period	Intercept	$i_{lt}$	$i_c - i_{lt}$	$R^2$
A. May 1991-1992 8	0.131 (19.82)	-0.651 (-11.16)		0.53
	0.092 (14.26)	-0.363 (-6.74)	0.666 (5.48)	0.54
B. 1982-1984	0.140 (8.15)	-0.637 (-5.00)		0.43
	0.064 (3.25)	-0.203 (-1.63)	1.549 (4.84)	0.60
C. 1985-1987	0.131 (7.73)	-0.739 (-9.67)		0.74
	0.110 (12.53)	-0.561 (-7.30)	0.317 (1.87)	0.77
D. 1988-1991	0.136 (16.23)	-0.793 (-8.29)		0.68
	0.130 (8.71)	-0.738 (-4.96)	0.098 (0.40)	0.68

Note: All variables are defined in Exhibit 1. Regressions were estimated using monthly data and were corrected for serial correlation using the Prais-Winsten method. For purposes of this regression, variables are expressed in decimal form, e.g., 14% = 0.14.

For the entire sample period, Panel A shows that risk premia are negatively related to the level of interest rates — as proxied by yields on government bonds,  $i_{lt}$ . This negative relationship is also true for each of the subperiods displayed in Panels B through D. Such a negative relationship may result from increases in the perceived riskiness of investment in government debt at high levels of interest rates. A direct measure of uncertainty about investments in government bonds would be necessary to test this hypothesis directly.

For the entire 1982 to 1991 period, the addition of the yield spread risk proxy to the regressions dramatically lowers the magnitude of the coefficient on government bond yields, as can be seen by comparing Equations 1 and 2 of Panel A. Furthermore, the coefficient of the yield spread (0.666) is itself significantly positive. This pattern suggests that a reduction in the risk differential between investment in government bonds and in corporate activity is translated into a lower equity market risk premium. Further examination of Panels B through D, however, suggests that the yield spread variable is much more important in explaining changes in equity risk premia in the early portion of the 1980s than in the 1988 to 1991 period.

In summary, market equity risk premia change over time and appear inversely related to the level of government interest rates but positively related to the bond yield spread, which proxies for the incremental risk of investing in equities as opposed to government bonds.

#### IV. Conclusions

Shareholder required rates of return and risk premia are based on theories about investors' expectations for the future. In practice, however, risk premia are often estimated using averages of historical returns. This paper applies an alternate approach to estimating risk premia that employs publicly available expectational data. At least for the decade studied (1982 to 1991), the resultant average market equity risk premium over government bonds is comparable in magnitude to long-term differences (1926 to 1989) in historical returns between stocks and bonds. There is strong evidence, however, that market risk premia change over time and, as a result, use of a constant historical average risk premium is not likely to mirror changes in investor return requirements. The results also show that the expectational risk premia vary cross-sectionally with the relative risk (beta) of individual stocks.

The approach offers a straightforward and powerful aid in establishing required rates of return either for corporate investment decisions or in the regulatory arena. Since data are readily available on a wide range of equities, an investigator can analyze various proxy groups (e.g., portfolios of utility stocks) appropriate for a particular decision as well as analyze changes in equity return requirements over time.

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Any forward-looking cost of capital calculation already embodies tax effects since investors price securities on the basis of after-tax returns. Besides, a very large proportion of trading is conducted by tax-exempt financial institutions (pension funds, mutual funds, 401K, etc.) for whom tax issues are largely immaterial.

The existence of a negative risk premium is highly unlikely, as it is at serious odds with the basic tenets of finance, economics, and law. Using proper definitions for expected rates of return of equity and debt, the preponderance of the evidence indicates that the negative risk premium does not exist. Several risk premium studies cited in this chapter have found positive risk premiums well in excess of 5% over the last decade. Risk premiums do narrow during unusually turbulent and volatile interest rate environments, but then return to normal levels. They are most unlikely to ever become negative.

### **4.7 Risk Premium Determinants**

Fundamentally, the primary determinant of expected returns is risk. To wit, the various paradigms of financial theory, including the Capital Asset Pricing Model and the Arbitrage Pricing Model covered in subsequent chapters, posit fundamental relationships between return and risk. There are also secondary influences on the relative magnitude of the risk premium, however, including the level of interest rates, default risk, and taxes.

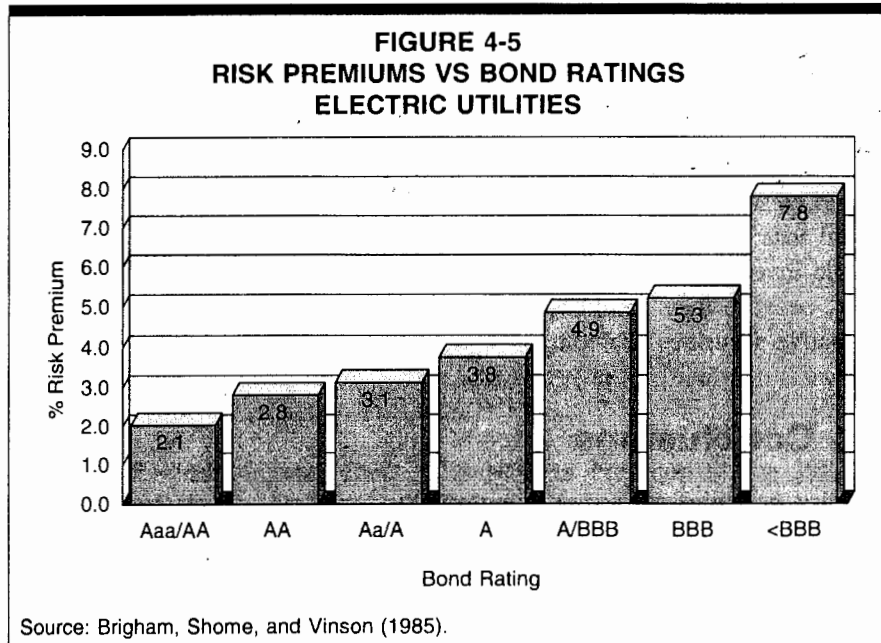
#### **Interest Rates**

Published studies by Brigham, Shome, and Vinson (1985), Harris (1986), Harris and Marston (1992, 1993), Carleton, Chambers, and Lakonishok (1983), Morin, (2005), and McShane (2005), and others demonstrate that, beginning in 1980, risk premiums varied inversely with the level of interest rates—rising when rates fell and declining when interest rates rose. The reason for this relationship is that when interest rates rise, bondholders suffer a capital loss. This is referred to as interest rate risk. Stockholders, on the other hand, are more concerned with the firm's earning power. So, if bondholders' fear of interest rate risk exceeds shareholders' fear of loss of earning power, the risk differential will narrow and hence the risk premium will shrink. This is particularly true in high inflation environments. Interest rates rise as a result of accelerating inflation, and the interest rate risk of bonds intensifies more than the earnings risk of common stocks, which are partially hedged from the ravages of inflation. This phenomenon has been termed as a "lock-in" premium. Conversely in low interest rate environments, when bondholders' interest rate fears subside and shareholders' fears of loss of earning power dominate, the risk differential will widen and hence the risk premium will increase.

Harris (1986) showed that for every 100 basis point change in government bond yields, the equity risk premium for utilities changes 51 basis points in the opposite direction, for a net change in the cost of equity of 49 basis points. For example, a 100 basis point decline in government bond yields would lead to a 51 basis point increase in the equity risk premium and therefore an overall decrease in the cost of equity of 49 basis points, a result almost identical to the estimate reported in Morin (2005). As discussed earlier, similar results were uncovered by McShane (2005), who examined the statistical relationship between DCF-derived risk premiums and interest rates using a sample of natural gas distribution utilities.

The gist of the empirical research on this subject is that the cost of equity has changed only half as much as interest rates have changed in the past. The knowledge that risk premiums vary inversely to the level of interest rates can be used to adjust historical risk premiums to better reflect current market conditions. Thus, when interest rates are unusually high (low), the appropriate current risk premium is somewhat below (above) that long-run average. The empirical research cited above provides guidance as to the magnitude of the adjustment.

Risk premiums also tend to fluctuate with changes in investor risk aversion. Such changes can be tracked by observing the yield spreads between different bond rating categories over time. Brigham, Shome, and Vinson (1985) examined the relationship between risk premium and bond rating and found, unsurprisingly, that the risk premiums are higher for lower rated firms than for higher rated firms. Figure 4-5 shows the results graphically.



to the DCF method, which may be sluggish in detecting changes in return requirements, especially when based on historical data.

One advantage of risk premium over DCF is that the former is a period-by-period (time-series) study of the cost of equity over the cost of debt, in contrast to the latter which is a point-in-time cross-sectional estimate. In other words, the risk premium approach takes a broader time-series perspective rather than a snapshot point-in-time viewpoint, and is therefore less vulnerable to the vagaries of any one particular capital market environment. A prospective risk premium test relies on a succession of DCF observations over long periods, and is not as vulnerable to a given capital market environment as a spot DCF test.

Of course, the estimation of the appropriate risk premium for either the equity market as a whole or for a specific utility company, is not an exact science. Therefore, it is necessary to evaluate a broad spectrum of data and apply alternative risk premium estimation approaches in order to derive a fair and reasonable estimate of the required equity risk premium. Equal emphasis should be accorded to risk premium results based on history and those based on prospective data. Each proxy for expected risk premium brings information to the judgment process from a different light. Neither proxy is without blemish, each has advantages and shortcomings. Historical risk premiums over long periods are available and verifiable, but may no longer be applicable if structural shifts have occurred. Prospective risk premiums may be more relevant since they encompass both history and current changes, but are nevertheless imperfect proxies and are subject to measurement error and to the vagaries of the DCF input proxies.

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# Common Equity Flotation Costs and Rate Making

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The proper treatment of common stock flotation costs is an issue in almost every utility rate case, and becomes increasingly important – for reasons shown in this article – as new stock offerings decline. The article provides clarification of the issue and offers a reasonable solution.

Incorrect statements have been made about the proper treatment of common equity flotation costs in the financial literature, and this has contributed to incorrect rate case testimony and to several improper decisions. The problem seems to have arisen for two reasons: (1) During the 1970s, when most utilities were raising large amounts of equity, the case for an equity cost adjustment was generally based on the need to sell common stock at prices greater than book value so as to avoid dilution when new stock was sold, but the proper rationale for the adjustment, and the argument that should have been made, is that an adjustment is necessary to recover actual incurred costs. (2) A number of academic writers [1, 2, 3, 6, 7, 8, 11]<sup>1</sup> have attempted to deal with the problem algebraically, and while a mathematical approach has merit, the different authors based their models on different and somewhat obscure assumptions, with the result that the academic research has actually done more to confuse than to clarify the issue.

As we see it, there are two questions which need answers:

- 1) Is an adjustment needed even if a company has no plans to sell new common stock in the foreseeable future?
- 2) If an adjustment is required, should it be applied to common stock only or to total common equity (common stock plus retained earnings)?

The answers are "yes" to the first question and "total common equity" to the second. Specifically, the market-

<sup>1</sup>Numbers in brackets correspond to numbers in the list of references at the end of the article.

determined cost of equity should be adjusted (increased) to reflect issuance costs associated with past issues regardless of whether a company plans to issue stock in the future or not, and the adjustment should be applied to the total common equity, including retained earnings. The reasons for these conclusions are set forth in the balance of this article.

## Background and Approach

The flotation cost adjustment – whether for bonds, preferred stocks, or common equity – is designed to convert a market rate of return into a fair rate of return on accounting book values. Prior to the 1970s, most utilities were regulated on the basis of the comparable earnings approach. With that method no market return was involved, and hence there was no need for a common equity flotation adjustment. However, as use of market-oriented equity cost approaches, especially the discounted cash flow (DCF) method, became prevalent during the 1970s, a specific flotation adjustment became necessary. The first use of DCF, to the authors' knowledge, was by Professor Myron J. Gordon as a staff witness in an American Telephone and Telegraph Company rate case before the Federal Communications Commission in the mid-1960s. Professors Alexander A. Robichek and Ezra Solomon of Stanford University, testifying for AT&T, proved that if a commission correctly identifies and then allows a *company* to earn its DCF cost of equity,  $k$ , on book equity, then *investors* will never be able to earn  $k$  on their investment, because the capital that investors have put up will exceed the company's book equity as a result of issuance (or flotation) costs. Thus, in the very first

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case where DCF methodology was used, Robichek and Solomon proved, and Gordon accepted, the idea that the allowed return on equity should exceed the DCF cost. Unfortunately, only the need for an adjustment, not the proper adjustment mechanism itself, was identified in that rate case.

The DCF method's great increase in popularity occurred during the 1970s, just when the companies were raising unprecedented amounts of new equity capital. Witnesses who used the DCF method recognized the need for an adjustment, and they had to provide a rationale to commissioners. Most witnesses gave this explanation:

- 1) If a company were allowed to earn only its DCF cost of equity, then its stock would normally sell at book value.
- 2) When new stock was issued, flotation expenses plus market pressure would drive the price of the stock below book value.
- 3) The issuance of stock at below book value would dilute the book value of the existing shares, and since future earnings and dividends are dependent upon book value, the market value of existing stock would also be diluted.
- 4) This dilution would obviously harm current stockholders; indeed, it would amount to economic confiscation.
- 5) Therefore, fair regulation requires commissioners to set authorized returns high enough to cause utility stocks to sell at prices that exceed book value by an amount sufficient to prevent below-book sales.

This argument was correct, although incomplete, and it was generally accepted during the 1970s, when most utilities were selling new stock every year or two. There were, of course, arguments about the level of flotation costs and the extent of market pressure, and hence about the proper market-to-book ratio, but the logic of some type of adjustment was rarely questioned.

However, as many utilities' construction programs neared completion in the early 1980s, and, accordingly, as new stock offerings slowed, the issue of the need for a flotation adjustment resurfaced. Patterson [6, 7] applied standard corporate finance techniques and concluded that a flotation adjustment is needed irrespective of current equity sales. Richter [11] supported Patterson's position. Arzac and Marcus [1, 2] also concluded that a flotation adjustment is always needed, but their formula produces an almost trivial adjustment factor unless the company is selling very large amounts of stock every year. Patterson and Arzac-Marcus debated in the finance journals, but they reached no reconciliation. Finally, in the latest article, Professors Bierman and Hass [3] derived yet another formula, one which produces an adjustment factor between those recommended by Patterson and Arzac-Marcus.

The issue is important, so it is necessary that we resolve the conflict. Further, since utility executives and regulators, not financial economists, must make decisions in this area, the resolution must be understandable to these decision makers. After studying the

problem, we concluded that the best way to approach a clear resolution is to set up some hypothetical, but reasonable, situations and then to test the alternative theories, asking the following question: What results do the several methods produce, and are those results fair to both consumers and investors?

### Bonds and Preferred Stocks

Because the proper treatment of flotation costs on bonds and preferred stocks is well known and not controversial, it helps to begin by examining that treatment as a lead-in to the analysis of common stock. First, note that debt flotation costs can be recovered in either of two ways: (1) They can be expensed and recovered from customers during the year the securities are sold, or (2) They can be capitalized and recovered over the life of the securities. The second method, which is consistent with the theory that those customers who benefit from a cost should pay for it, is generally used. Under this theory, bond flotation expenses are reflected in the embedded cost of the bond and are recovered over the life of the bond. For example, if flotation costs of 5 per cent were incurred on a \$100 million, ten-year, 15 per cent coupon bond issue, they would be handled in the following manner by most federal and state regulators:

$$\begin{aligned} \text{Cost to company} &= \frac{\text{Interest expense} + \text{Amortization of flotation costs}}{\text{Principal value} - \text{Unamortized flotation costs}} \quad (1) \\ &= \frac{\$15,000,000 + (\$5,000,000/10)}{\$100,000,000 - \$5,000,000} \\ &= \frac{\$15,500,000}{\$95,000,000} = 16.3158\% \text{ for the first year} \end{aligned}$$

Return requirements would be calculated as follows:

$$\begin{aligned} \text{Return requirements} &= \frac{\text{Cost rate}(\text{Principal value} - \text{Unamortized flotation costs})}{\text{Unamortized flotation costs}} \quad (2) \\ &= 0.163158(\$100,000,000 - \$5,000,000) \\ &= \$15,500,000. \end{aligned}$$

In this example, the company received \$95 million of cash, which it used to purchase \$95 million of operating assets. To meet its interest expense and flotation amortization requirements, the company must have \$15.5 million in return dollars. This return will only be generated if the company earns 16.3158 per cent on its \$95 million of operating assets. Under this procedure, the percentage cost as calculated in Equation 1 declines each year, but the return dollar amount remains constant.<sup>2</sup>

<sup>2</sup>An alternative procedure that produces exactly the same result is to divide interest charges plus flotation amortization by the principal value of the issue, and then to multiply this cost rate by the principal value of the issue:

$$\text{Embedded cost rate} = \frac{\$15,500,000}{\$100,000,000} = 0.155 = 15.5\%$$

$$\text{Return requirements} = 0.155(\$100,000,000) = \$15,500,000.$$

This procedure in effect includes both flotation costs and operating assets in the rate base.



Preferred stocks are handled similarly. Actually, utilities issue two types of preferred stocks, those with sinking funds and those that are perpetual. The adjustment formula for sinking fund preferred is exactly like that for bonds, but a difference arises in the case of perpetual preferreds. Perpetual preferred stock represents permanent capital; hence its flotation costs are not amortized.<sup>3</sup> Assuming again a \$100 million issue and a 5 per cent flotation cost, this formula applies:

$$\begin{aligned} \text{Cost to company} &= \frac{\text{Dividend requirements}}{\text{Net proceeds}} = \frac{\$15,000,000}{\$95,000,000} \quad (3) \\ &= 15.7895\% \end{aligned}$$

Alternatively, we could write the formula as follows:

$$\text{Cost to company} = \frac{\text{Dividend rate}}{1.0 - \text{Flotation}} = \frac{15\%}{0.95} = 15.7895\% \quad (3a)$$

The return dollars can then be calculated as follows:<sup>4</sup>

$$\begin{aligned} \text{Dollars of return} &= 0.157895(\$95,000,000) \\ &= \$15,000,000. \end{aligned}$$

In this example, the preferred stockholders expect and require a return of 15 per cent on *their investment* (\$100 million), but the company must earn 15.7895 per cent on *its operating assets* (\$95 million) to provide this required return.<sup>5</sup> If the company earned only 15 per cent on the \$95 million, then the company would have after-tax revenues of only \$14,250,000 to meet investors' preferred dividend requirements of \$15 million. Obviously, then, the 15 per cent market value cost of preferred must be adjusted upward to a 15.7895 per cent return on the company's operating assets if investors are to receive the reasonable rate of return they contracted for.

### Common Stock

From a conceptual standpoint, it has long been recognized that the situation with common stock is similar to that for bonds and preferred stocks: Issuance costs are incurred; they should not be and are not expensed at the time the stock is sold; and therefore recovery must occur in subsequent years. Further, just as with bonds and preferred stock, the authorized rate of return on rate base equity must be above the rate of return to the investor; that is, the cost to the utility is above the return to the investor. The standard text-

<sup>3</sup>In effect, the flotation costs of the preferred are amortized over an infinite period, which is to say the amortization per year is zero. Investors have made a *permanent* investment, so the original investors or those who purchase the stock in the secondary market must receive a return on that investment in perpetuity.

<sup>4</sup>Of course, preferred stock dividends are not deductible, so the total revenues required to produce the return dollars is higher for preferred stock than for debt.

<sup>5</sup>Note that the return dollars for the bond exceed those for the perpetual preferred stock - \$15.5 million versus \$15 million. However, these are first-year costs only. The bond's cost rate declines over time due to the amortization of its flotation costs, whereas the cost rate associated with the preferred stock remains constant, and the rates of return to the bondholders and the preferred stockholders are identical.

book formula, which Patterson [6] used, is as follows:<sup>6</sup>

$$r = \frac{\text{Expected dividend yield}}{1.0 - F} + g$$

Here:

- r = authorized rate of return on book equity, if stockholders are to earn their required rate of return, k,
- F = percentage flotation cost associated with common stock offerings, and
- g = the expected growth rate in earnings and dividends.

The percentage flotation factor, F, consists of two elements: (1) underwriting costs and (2) "market pressure," which is the decline in the stock price that results when the supply of shares is suddenly increased. Historically, utility underwriting expenses have averaged from 3 to 4 per cent of gross proceeds [9]. Market pressure varies over time, depending on the size of the issue, the condition of the market, and the degree to which investors were surprised by the announcement of the stock sale. Moreover, stock prices change for reasons other than new offerings, so it is difficult to obtain an exact measure of market pressure. However, several careful studies have been reported, and they indicate that market pressure is in the range of one to 3 per cent [10]. Thus, for most utilities, flotation expenses plus pressure have totaled about 5.5 per cent.

To illustrate the flotation cost adjustment process, and following Bierman and Hass for consistency, we assume that a new, start-up utility has the following characteristics:

- 1) Our hypothetical company can sell stock in the market at \$10 per share, and investors expect it to pay a dividend of one dollar and to grow at a rate of 5 per cent. Thus, its DCF cost of equity is  $k = D/P + g = 10\% + 5\% = 15\%$ , investors' required rate of return.
- 2) To raise initial capital, the company plans to sell an issue of stock, incurring flotation costs of  $F = 5$  per cent.
- 3) Applying Equation 5, we obtain a flotation-adjusted cost of equity ( $r$ ) of 15.5263 per cent:

$$\begin{aligned} r &= \frac{\text{Expected dividend yield}}{1 - F} + g \\ &= \frac{10.0\%}{0.95} + 5\% \\ &= 10.5263\% + 5\% = 15.5263\% \end{aligned}$$

Thus, the illustrative utility's fair rate of return on book equity according to Equation 5 is approximately 53 basis points above its 15 per cent unadjusted "bare bones DCF cost of equity."

- 4) The company will sell one share of stock and obtain net proceeds of \$9.50. This \$9.50 is also the initial book value, B, and rate base. (Obvi-

<sup>6</sup>This formula is developed in reference citation 5, Chapter 7, as well as in most other corporate finance textbooks.



ously, this amount, which we use for simplicity, could be scaled up without altering the conclusions.)

- 5) After its inception and initial stock offering, all of the company's equity is expected to come from retained earnings. In a later case, we will examine the situation when more stock is sold.
- 6) The company operates in a reasonable and prudent manner, such that by any fairness criteria, investors should be allowed to earn their 15 per cent cost of capital return, no more and no less. For simplicity, we also assume that regulation operates properly, without lags.
- 7) Initially, we assume that the market cost of capital remains constant at 15 per cent, and that the company maintains a constant payout ratio so as to keep the dividend yield and growth components at 10 per cent and 5 per cent, respectively. These assumptions are consistent with the

DCF model, but later in the article we expand the analysis by relaxing both of them.

Now these questions may be asked:

- Should the flotation adjustment be applied to all common equity or, once retained earnings appear on the balance sheet, only to common stock?
- For how many years should an adjustment be applied: One, two, ten, twenty, or forever?

When we applied Equation 5, the textbook formula which Patterson recommended, we found that it produces results that satisfy the fairness criterion; namely, it permits investors to earn exactly their 15 per cent cost of capital, no more and no less. This result for our initial case is demonstrated in Table 1, which was produced by a simple computer model, and it is analyzed below:

**Table 1**

Case 1: Company Earns Flotation-adjusted Cost of Equity (r) on All Common Equity

Year	Beginning of Year							
	Common Stock (1)	Retained Earnings (2)	Total Equity (3)	Stock Price (4)	Market-Book Ratio (5)	EPS (6)	DPS (7)	Payout (8)
1	\$9.50	\$0.0000	\$ 9.5000	\$10.0000	1.0526x	\$1.4750	\$1.0000	67.7966%
2	9.50	0.4750	9.9750	10.5000	1.0526	1.5488	1.0500	67.7966
3	9.50	0.9738	10.4738	11.0250	1.0526	1.6262	1.1025	67.7966
4	9.50	1.4974	10.9974	11.5763	1.0526	1.7075	1.1576	67.7966
5	9.50	2.0473	11.5473	12.1551	1.0526	1.7929	1.2155	67.7966
6	9.50	2.6247	12.1247	12.7628	1.0526	1.8825	1.2763	67.7966
7	9.50	3.2309	12.7309	13.4010	1.0526	1.9766	1.3401	67.7966
8	9.50	3.8675	13.3675	14.0710	1.0526	2.0755	1.4071	67.7966
9	9.50	4.5358	14.0358	14.7746	1.0526	2.1792	1.4775	67.7966
10	9.50	5.2376	14.7376	15.5133	1.0526	2.2882	1.5513	67.7966

- NOTES:
- 1) Assumptions made in this case are as follows:
    - a) Issue price = \$10
    - b) Flotation cost = 5%
    - c)  $k = D/P + g = 10\% + 5\% = 15\%$
    - d)  $r = 15.5263\%$
  - 2) The data in this case, and also the more complex cases, were developed with a Lotus 1-2-3 computer program.

- 1) The company's balance sheet item common stock is shown in Column 1.
- 2) Retained earnings are shown in Column 2. Initially, they are zero, but they build up over time.
- 3) Total equity as shown in Column 3 is the sum of common stock and retained earnings. Total equity grows as retained earnings build up.
- 4) Column 4 shows the stock price as determined by the basic DCF formula. It starts at \$10 and grows at a rate of 5 per cent per year, which is necessary to produce the 5 per cent capital gains yield that investors expect and should receive.<sup>7</sup>
- 5) Column 5 shows the market-to-book (M/B) ratio. Notice that the M/B always exceeds one. The only way the M/B ratio could go to one would be for the stock price to fall below the value shown in Column 4, but if that were to happen, then investors would not receive the capital gains to which they are entitled. Thus, the M/B will exceed one if investors are being treated fairly.
- 6) Earnings per share (EPS) as shown in Column 6 is the product of total equity times 0.155263, the fair rate of return as determined by Equation 5.
- 7) Dividends per share (DPS) as shown in Column 7 begin at one dollar and grow at a rate of 5 per cent per year. This growth rate is a requirement if investors are to earn their DCF cost of capital.
- 8) The payout ratio is shown in Column 8. Under

<sup>7</sup>The DCF valuation equation is

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

This equation, solved for k, produces the standard DCF cost of capital equation,  $k = D_1/P_0 + g$ . See reference citation 5, Chapter 5, for a derivation and discussion.



the assumptions of the standard DCF constant growth model, the payout must be constant, and it is if  $r$  as determined by Equation 5 is used as the allowed return on equity.

9) Note also that book value per share as shown in Column 3 is growing at a constant rate, 5 per cent. The retention growth rate,  $g = br$ , where  $r$  is the return on book equity and  $b$  is the fraction of earnings, is

$$g = br = (1.0 - 0.677966)(15.5263) = 0.322(15.5263) = 5.0\%, \text{ just as it should be.}$$

Case 1 proves that Equation 5 produces the desired results: namely, returns that exactly cover the cost of equity, no more and no less. Any return on book equity different from that established by Equation 5 would produce inconsistent results. For example, suppose the authorized rate of return were cut from 15.5263 to the DCF return, 15 per cent, in Year 2. This would cause the stock price to drop from \$10.50 to the \$9.9750 book value. Thus, stockholders would suffer a loss, and they would not obtain the capital gains yield to which they are entitled. Any other type of experimentation will show exactly the same thing: If the company is not allowed to earn the cost of equity as determined by Equation 5 on total common equity, stockholders will not receive a 15 per cent return on their invested capital.

**Sale of Additional Equity**

While the only-one-equity-sale conditions used to develop Case 1 are consistent with Bierman and Hass's example, and also with some actual companies such as Comsat and the Yankee Atomic Power companies, most utilities sell additional common stock from time

to time. Therefore, we modified the computer model to analyze stock sales subsequent to the initial offering, and we report the results in Table 2 as Case 2, in which the company raises an additional share of new common equity for \$12.1247 at the beginning of Year 6. (Note that the \$12.1247 is calculated as the price of the stock at the beginning of Year 6 less flotation costs.) Earnings, dividends, and common equity all increase in Year 6 as a result of the sale, but investors continue to earn exactly 15 per cent on their investment so long as the company is allowed to earn 15.5263 per cent on its total book equity.

In Case 3, reported in Table 3, we present the results for a company that issues new equity at a flotation cost different from the cost of its original stock issue. Case 3 is similar to Case 2. Just as in Case 2, the company issues new equity at the beginning of Year 6. However, in Case 3, the equity sold at the beginning of Year 6 has a different flotation cost (3 per cent) from that of the original issue (5 per cent). With lower flotation costs, the company nets more common equity in Case 3 than in Case 2. (The dollar amount of new equity raised is calculated as the price of the share of stock at the beginning of Year 6 less the 3 per cent flotation costs incurred.)

In this example, because the new equity is sold at a different flotation cost than the old equity, a new value of  $r$  must be calculated and used to determine net income. The new  $r$  is a weighted average of  $r$  as determined by Equation 5 for each equity issue, with the weights being the fraction of total equity attributable to the new and old stock at the time the new stock is issued. Because of the lower flotation costs on the new equity, there is a corresponding drop in the market-to-book ratio in Year 6. Note, however, that after the transitional Year 6, earnings and dividends continue to grow at the required 5 per cent rate, which is neces-

**Table 2**  
Case 2: Company Sells Additional Stock at the Beginning of Year 6  
Beginning of Year

Year	Common Stock (1)	New Issue (1a)	Retained Earnings (2)	Total Equity (3)	Stock Price (4)	Market-Book Ratio (5)	EPS (6)	DPS (7)	Payout Ratio (8)
1	\$ 9.50		\$0.0000	\$ 9.5000	\$10.0000	1.0526x	\$1.4750	\$1.0000	67.7966%
2	9.50		0.4750	9.9750	10.5000	1.0526	1.5488	1.0500	67.7966
3	9.50		0.9738	10.4738	11.0250	1.0526	1.6262	1.1025	67.7966
4	9.50		1.4974	10.9974	11.5763	1.0526	1.7075	1.1576	67.7966
5	9.50		2.0473	11.5473	12.1551	1.0526	1.7929	1.2155	67.7966
6	9.50	\$12.1247	2.6247	24.2493	12.7628	1.0526	1.8825	1.2763	67.7966
7	21.6247		3.8371	25.4618	13.4010	1.0526	1.9766	1.3401	67.7966
8	21.6247		5.1102	26.7349	14.0710	1.0526	2.0755	1.4071	67.7966
9	21.6247		6.4470	28.0717	14.7746	1.0526	2.1792	1.4775	67.7966
10	21.6247		7.8506	29.4752	15.5133	1.0526	2.2882	1.5513	67.7966

NOTES:  
Assumptions made in this case are as follows:  
a) Original issue price = \$10  
b) Flotation cost = 5%  
c)  $k = D/P + g = 10\% + 5\% = 15\%$   
d)  $r = 15.5263\%$   
e) Year 6 issue price = \$12.7628  
f) Year 6 new common stock =  $\$12.7628(1 - F)$   
=  $\$12.7628(0.95)$   
= \$12.1247



Table 3

Case 3: Company Sells Additional Stock at the Beginning of  
Year 6 Incurring Different Flotation Costs

Beginning of Year									
Year	Common Stock (1)	New Issue (1a)	Retained Earnings (2)	Total Equity (3)	Stock Price (4)	Market-Book Ratio (5)	EPS (6)	DPS (7)	Payout Ratio (8)
1	\$ 9.5000		\$0.0000	\$ 9.5000	\$10.0000	1.0526x	\$1.4750	\$1.0000	67.7966%
2	9.5000		0.4750	9.9750	10.5000	1.0526	1.5488	1.0500	67.7966
3	9.5000		0.9738	10.4738	11.0250	1.0526	1.6262	1.1025	67.7966
4	9.5000		1.4974	10.9974	11.5763	1.0526	1.7075	1.1576	67.7966
5	9.5000		2.0473	11.5473	12.1551	1.0526	1.7929	1.2155	67.7966
6	9.5000	\$12.3799	2.6247	24.5046	12.7628	1.0526	1.8889	1.2763	67.7566
7	21.8799		3.8499	25.7298	13.4010	1.0526	1.9833	1.3401	67.5676
8	21.8799		5.1364	27.0163	14.0710	1.0526	2.0825	1.4071	67.5676
9	21.8799		6.4872	28.3671	14.7746	1.0526	2.1866	1.4775	67.5676
10	21.8799		7.9056	29.7855	15.5133	1.0526	2.2960	1.5513	67.5676

NOTES:  
Assumptions made in this case are as follows:  
a) Original issue price = \$10  
b) Year 1 Flotation cost = 5%  
c)  $k = D/P + g = 10\% + 5\% = 15\%$   
d)  $r_1 = 15.5263\%$   
e) Year 6 issue price = \$12.7628  
f) Year 6 flotation cost = 3%  
g) Year 6 new common stock =  $\$12.7628(1 - F)$   
=  $\$12.7628(0.97)$   
= \$12.3799  
h) Additional issue  $r = 15.3093\%$

sary if investors are to receive the 15 per cent DCF return on their investment. The stock price grows at 5 per cent throughout the ten-year period.

The fact that the company must continue to earn the flotation-adjusted cost of equity, even as retained earnings build up to a larger and larger proportion of total common equity, is counterintuitive, and so it deserves further discussion. Here are two comments:

1) *Demonstration that a weighted average cost rate is inappropriate.* It has been suggested that the authorized return on equity should be a weighted average of the flotation-adjusted cost rate,  $r = 15.5263$  per cent, and the DCF cost rate,  $k = 15$  per cent, with the weights being based on common equity and accumulated retained earnings, respectively. When we programmed our model to reflect these conditions, we obtained the results shown in Table 4. A problem obviously exists - if dividends are to grow at the 5 per cent rate that investors expect, and if earnings are based on a weighted average of  $k$  and  $r$ , then a higher and higher percentage of earnings will have to be paid out. Thus, the payout ratio will rise. In Year 34 the payout ratio will exceed 100 per cent, so retained earnings will start to decline. Retained earnings actually go negative in Year 45, and Total Common Equity goes negative in Year 46, which means the company is officially bankrupt. This example demonstrates, in yet another way, that the flotation-adjusted cost of equity must be earned on all common equity if investors are to receive the DCF return to which they are entitled under prudent management. The example also demonstrates that, if investors were informed that the regulatory treatment implied in Table 4 were going to be

employed, they would not invest in the company in the first place.

2) *Logical explanation.* To understand *why* the Equation 5 value must be applied to all common equity, retained earnings as well as equity raised by selling stock, one must trace through the valuation process. Notice that, in Year 1, investors require a return of 15 per cent on their \$10 investment, or \$1.50. However, the company earns only \$1.4750, of which it pays out one dollar as a dividend and retains 47.5 cents. To give the investor the fifty-cent increase in market value (or capital gain) needed to add to the one dollar dividend to produce the \$1.50, or 15 per cent, total DCF return, the 47.5 cents must earn more than 15 per cent. Specifically, it must earn the flotation adjusted cost of equity,  $r = 15.5263$  per cent. This same thought process can be continued in other years, ad infinitum, and the ultimate conclusion is that both the original common equity and all retained earnings must earn  $r = 15.5263$  per cent.

If the preceding paragraph is not clear, we can put it another way. The investor expects and is entitled to earn, under prudent management, a return of 15 per cent on his or her investment. Thus, dividends plus capital gains must total 15 per cent, or \$1.50 in the first year. Ten per cent, or one dollar, will come from dividends, so 5 per cent, or 50 cents, must come from capital gains. To obtain a capital gain yield of 50 cents from 47.5 cents of retained earnings, the retained earnings must earn a return greater than  $k = 15$  per cent; specifically, the retained earnings must be allowed to earn  $r = 15.5263$  per cent. (If the 47.5 cents earned 15 per cent, then it would be worth exactly 47.5 cents, not 50 cents.) In Year 2, retained earnings will rise by



5 per cent from 47.5 cents to 49.875 cents; the capital gains then must rise from 50 cents to  $.50(1.05) = 52.5$  cents; the only way this can happen is for the second-year retained earnings to be allowed to earn  $r = 15.5263$  per cent; and so on.

**The Effect of the Payout Ratio on the Flotation Cost Adjustment**

Even though fair regulation requires that retained earnings be allowed to earn the flotation adjusted cost of equity, the level of retained earnings as affected by the payout ratio does have a material effect on the size of the adjustment.

To illustrate this point, assume (1) that two utilities both have a 15 per cent market cost of equity, that is,  $k = 15$  per cent; (2) that both companies sell at a price of \$20; but (3) that one company has a policy of paying out 25 per cent of its earnings and retaining 75 per cent, while the other has the reverse dividend policy. Assume further that both companies earn 15 per cent on their \$20 market value, so earnings per share are  $.15(\$20) = \$3$ . The high payout company has a dividend of  $.75(\$3) = \$2.25$ , while the low payout company has a dividend of  $.25(\$3) = 75$  cents. At the same time, the low payout company, which plows most of its earnings back into the business, will have a growth rate of  $g = .75(15 \text{ per cent}) = 11.25$  per cent, while the high payout company will have  $g = .25(15 \text{ per cent}) = 3.75$  per cent.

Under these conditions, the following situation would exist for the two illustrative companies:

Low payout Company:  $k = \frac{D_1}{P_0} + g = \frac{\$0.75}{\$20} + 11.25\%$   
 $= 3.75\% + 11.25\% = 15\%$

High payout Company:  $k = \frac{D_1}{P_0} + g = \frac{\$2.25}{\$20} + 3.75\%$   
 $= 11.25\% + 3.75\% = 15\%$

Applying the adjustment formula,

$$r = \frac{\text{Expected dividend yield}}{1 - F} + g.$$

we find this situation, assuming that issuance costs are 5 per cent:

High payout Company:  $r = \frac{11.25\%}{0.95} + 3.75\%$   
 $= 11.842\% + 3.75\% = 15.592\%$

Low payout Company:  $r = \frac{3.75\%}{0.95} + 11.25\%$   
 $= 3.947\% + 11.25\% = 15.197\%$   
 Difference = 0.395%

Thus, we see that the company which retains most of its earnings, and which consequently has more retained

**Table 4**

Case 4: Company Earns Weighted Average k

Year	Common Stock (1)	Retained Earnings (2)	Total Equity (3)	EPS (4)	DPS (5)	Payout Rate (6)	Weighted k (7)
1	\$9.5000	\$ 0.0000	\$ 9.5000	\$1.4750	\$1.0000	67.7966%	0.1553
2	9.5000	0.4750	9.9750	1.5463	1.0500	67.9062	0.1550
3	9.5000	0.9713	10.4713	1.6207	1.1025	68.0267	0.1548
4	9.5000	1.4894	10.9894	1.6984	1.1576	68.1591	0.1545
5	9.5000	2.0302	11.5302	1.7795	1.2155	68.3047	0.1543
.	.	.	.	.	.	.	.
.	.	.	.	.	.	.	.
33	9.5000	23.2219	32.7219	4.9583	4.7649	96.1006	0.1515
34	9.5000	23.4152	32.9152	4.9873	5.0032	100.3188	0.1515
35	9.5000	23.3993	32.8993	4.9849	5.2533	105.3852	0.1515
.	.	.	.	.	.	.	.
.	.	.	.	.	.	.	.
45	9.5000	-2.3443	7.1557	1.1234	8.2791	736.9935	0.1570
46	The company goes bankrupt.						

NOTES:

- 1) Assumptions made in this case are as follows:
  - a) Issue price = \$10
  - b) Flotation cost = 5%
  - c)  $k = D/P + g = 10\% + 5\% = 15\%$
  - d)  $r = 15.5263\%$
- 2) The dividend in Year 45 cannot grow by the 5 per cent growth rate, because if it did total equity would become negative. Therefore, the Year 45 dividend is calculated as the remaining portion of total equity + earnings in Year 45:  $\$7.1557 + \$1.1234 = \$8.2791$ .

**Table 5**

Case 5: Company Sells Additional Stock and k Changes

Beginning of Year

Year	Common Stock (1)	New Issue (1a)	Retained Earnings (2)	Total Equity (3)	Stock Price (4)	Market-Book Ratio (5)	EPS (6)	DPS (7)	Payout Ratio (8)
1	\$ 9.5000		\$0.0000	\$ 9.5000	\$10.0000	1.0526x	\$1.4750	\$1.0000	67.7966%
2	9.5000		0.4750	9.9750	10.5000	1.0526	1.5488	1.0500	67.7966
3	9.5000		0.9738	10.4738	11.0250	1.0526	1.6262	1.1025	67.7966
4	9.5000		1.4974	10.9974	11.5763	1.0526	1.7075	1.1576	67.7966
5	9.5000		2.0473	11.5473	12.1551	1.0526	1.7929	1.2155	67.7966
6	9.5000	\$12.3799	2.6247	24.5046	12.7628	1.0526	1.8889	1.2763	67.5676
7	21.8799		3.8499	25.7298	13.4010	1.0526	1.9833	1.3401	67.5676
8	21.8799		5.1364	27.0163	14.0710	1.0526	1.8123	1.4071	77.6398
9	21.8799		5.9469	27.8268	14.4931	1.0526	1.8667	1.4493	77.6398
10	21.8799		6.7817	28.6616	14.9279	1.0526	1.9227	1.4928	77.6398

NOTES:

Assumptions made in this case are as follows:

- a) Original issue price = \$10
- b) Year 1 flotation cost = 5%
- c) Issue 1  $r = 15.5263\%$
- d) Year 6 issue price = \$12.7628
- e) Year 6 flotation cost = 3%
- f) Year 6 new common stock =  $\$12.7628(1 - F)$   
=  $\$12.7628(0.97)$   
= \$12.3799
- g) Additional issue  $r = 15.3093\%$
- h) Years 1-7,  $k = D/P + g = 10\% + 5\% = 15\%$
- i) Years 8-10,  $k = D/P + g = 10\% + 3\% = 13\%$

**Table 6**

Case 6: Company Sells Additional Stock and k Changes

Beginning of Year

Year	Common Stock (1)	New Issue (1a)	Retained Earnings (2)	Total Equity (3)	Stock Price (4)	Market-Book Ratio (5)	EPS (6)	DPS (7)	Payout Ratio (8)
1	\$ 9.5000		\$0.0000	\$ 9.5000	\$10.0000	1.0526x	\$1.4750	\$1.0000	67.7966%
2	9.5000		0.4750	9.9750	10.5000	1.0526	1.5488	1.0500	67.7966
3	9.5000		0.9738	10.4738	11.0250	1.0526	1.6262	1.1025	67.7966
4	9.5000		1.4974	10.9974	11.5763	1.0526	1.7075	1.1576	67.7966
5	9.5000		2.0473	11.5473	12.1551	1.0526	1.7929	1.2155	67.7966
6	9.5000	\$12.3799	2.6247	24.5046	12.7628	1.0526	1.8889	1.2763	67.5676
7	21.8799		3.8499	25.7298	13.4010	1.0526	1.9833	1.3401	67.5676
8	21.8799		5.1364	27.0163	14.0710	1.0526	1.8011	1.1257	62.5000
9	21.8799		5.9469	27.3671	14.7746	1.0526	1.8911	1.1820	62.5000
10	21.8799		6.7817	29.7855	15.5133	1.0526	1.9857	1.2411	62.5000

NOTES:

Assumptions made in this case are as follows:

- a) Original issue price = \$10
- b) Year 1 flotation cost = 5%
- c) Issue 1  $r = 15.5263\%$
- d) Year 6 issue price = \$12.7628
- e) Year 6 flotation cost = 3%
- f) Year 6 new common stock =  $\$12.7628(1 - F)$   
=  $\$12.7628(0.97)$   
= \$12.3799
- g) Additional issue  $r = 15.3093\%$
- h) Years 1-7,  $k = D/P + g = 10\% + 5\% = 15\%$
- i) Years 8-10,  $k = D/P + g = 10\% + 3\% = 13\%$



earnings and a smaller dollar amount of flotation costs, also has the lower flotation-adjusted cost of equity. This demonstrates that the issuance cost adjustment formula is itself adjusted to reflect the extent to which a company finances by retaining earnings rather than by selling new common stock.

### Changes in the DCF Cost of Equity

We also analyzed the effects of changes in the DCF cost of equity over time. While a change in the DCF  $k$  causes a change in earnings, dividends, and the growth rate, the flotation adjustment process is not affected - Equation 5 still produces a fair rate of return on book value. This is demonstrated in Tables 5 and 6. It should be noted that the effects of the adjustment as derived by Equation 5 do vary with the level of the DCF cost and with the split between dividend yield and growth. In Case 5, we analyze the effects of a change in the growth rate with the dividend yield held constant, while in Case 6, reversing them, we analyze the effects of a change in the dividend yield with the growth rate held constant. Both cases use Case 3 as their base case. In each instance, a new value for  $r$ , based on Equation 5, can be established, and this return on book value permits investors to earn their new DCF cost of equity.

### Capitalizing Flotation Costs

Bierman and Hass, almost as an afterthought toward the end of their article, suggested that utilities should be allowed to record the gross amount of equity sales and to earn a DCF return on gross equity capital. This would amount to capitalizing flotation costs. These capitalized costs could then be amortized over some prescribed period or else be kept on the books indefinitely.

To show this, we set up computer models using our various cases but capitalizing flotation costs. One can see that earnings, dividends, and stock prices are all exactly like those shown in our tables. Thus, capitalizing flotation costs produces exactly the same results as Equation 5.

Capitalizing flotation costs has much to recommend it, for it would eliminate the confusion that has existed. However, a fundamental problem exists for any company that has incurred flotation costs in the past, that is, for virtually the entire utility industry: How would the fact that past flotation costs were not capitalized be dealt with? In other words, capitalizing flotation costs would be an excellent procedure for a new, start-up, company, but such a plan would not be feasible for an existing company without somehow adjusting for past costs. Such an adjustment could be made, but a discussion of it goes beyond the scope of this article.

### Conclusion

The proper treatment of equity flotation costs has caused much confusion. Had such costs been either capitalized in the past or else expensed on an incurred basis, there would be no problem, but since neither of these practices has generally been followed, the DCF return must be adjusted to produce a fair rate of return on book equity.

Further, the adjustment is always required, irrespective of whether or not a company has plans to sell new stock in the future, and the adjusted return must be earned on total equity, including retained earnings. Otherwise, it would be impossible for investors to earn the cost of equity, even under prudent and efficient management.

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### **Alternative Sources of Equity**

A second controversy is whether a flotation cost allowance should be allowed because a company can always obtain equity from sources other than a public issue of common stock, such as a rights issue for example. There are several sources of equity capital available to a firm, including: public common stock issues, conversions of convertible preferred stock, dividend reinvestment plans, employees' savings plans, warrants, and stock dividend programs. Each carries its own set of administrative costs and flotation cost components, including discounts, commissions, corporate expenses, offering spread, and market pressure.

Equity capital raised through a public issue is typically more expensive than alternate sources of equity. Rights issues, when available, are less expensive, but direct costs still would be incurred. Of course, a rights issue assumes that a willing underwriter and a willing market could be found for such offerings in the first place, an unlikely event in public capital markets for small unproven companies. Internal sources of equity, including dividend reinvestment and/or employee stock option plans, are also typically less expensive, unless a discount on the purchase price is inherent in the plan, in which case they are often equivalent to a public issue. Direct costs are also incurred in an employee stock savings plan and/or a shareholder dividend reinvestment plan.

The flotation cost allowance is still warranted, however, because it is a composite factor that reflects the historical mix of all these sources of equity. The flotation cost allowance applicable to all the company's book equity is actually a weighted average of the current allowances required for each past financing, that is, the flotation cost allowance factor is a build-up of historical flotation cost adjustments associated and traceable to each component of equity source. However, it is impractical and prohibitive to start from the inception of a company and source all present equity from various equity vintages and types of equity capital raised by the company. One way of circumventing the problem of vintaging each form of equity is to source book equity by broad categories of equity, such as dividend reinvestment plan equity, stock option equity, and public issue equity, and calculate a weighted average flotation factor. That is also onerous and cumbersome. A practical solution is to rely on the results of the empirical studies discussed earlier that quantify the average flotation cost factor of a large sample of utility stock offerings.

### **Efficient Markets**

A third controversy centers around the argument that the omission of flotation cost is justified on the grounds that, in an efficient market, the stock price already reflects any accretion or dilution resulting from new issuances of securities and that a flotation cost adjustment results in a double counting effect. The simple fact of the matter is that whatever stock price is set by the



market, the company issuing stock will always net an amount less than the stock price due to the presence of intermediation and flotation costs. As a result, the company must earn slightly more on its reduced rate base in order to produce a return equal to that required by shareholders.

Existing shareholders are made worse off when a company issues new stock below the market price, irrespective of how "efficient" that stock price may be. As seen in an earlier example, the new issue results in a transfer of wealth from existing to new shareholders. This is true regardless of the degree of efficiency of the market.

It has also been argued that a flotation cost allowance is inequitable since it results in a windfall gain to shareholders. This argument is erroneous. As stated previously, the company's common equity account is credited by an amount less than the market value of the issue, so that the company must earn slightly more on its reduced rate base in order to produce a return equal to that required by shareholders. Moreover, existing shareholders are made worse off when a company issues new stock below the market price.

The suggestion that the flotation cost allowance is unwarranted because investors factor this shortcoming in the stock price implies that it is appropriate to use a deficient model because such a deficiency is reflected in stock prices. In other words, it is appropriate to use a deficient model because investors are aware of this. Such circular reasoning could be used to justify any regulatory policy. For example, under this reasoning, it would be appropriate to authorize a return on equity of 1% because investors reflect this fact in the stock price. This is clearly illogical and erroneous. Any regulatory policy, as irrational as it may be, can be justified using this argument.

### **Absence of Imminent Stock Issues**

Another controversy is whether the flotation cost allowance should still be applied when the utility is not contemplating an imminent common stock issue. Some argue that flotation costs are real and should be recognized in calculating the fair return on equity, but only at the time when the expenses are incurred. In other words, the flotation cost allowance should not continue indefinitely, but should be made in the year in which the sale of securities occurs, with no need for continuing compensation in future years. This argument implies that the company has already been compensated for these costs and/or the initial contributed capital was obtained freely, devoid of any flotation costs, which is an unlikely assumption, and certainly not applicable to most utilities. If the flotation costs of past stock issues have been fully recovered, the argument has merit. If that assumption is not met, the argument is without merit. The flotation cost adjustment cannot be strictly forward-looking unless all past flotation costs associated with past issues have been recovered.

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(rate base) of \$95 to provide investors with a \$10 return on the money actually invested. This is because only the net proceeds from an equity issue are added to the rate base on which the investor earns.

Here is another example that illustrates the fact that existing shareholders are made worse off when a company issues new stock below the market price. Before the issue, let us say there are 100 shares trading at \$10.00 per share. The company issues an additional 25 shares at \$5.00. Company value must increase by  $25 \times \$5 = \$125$ . Therefore, after the issue each share is worth:

$$\frac{(100 \times \$10) + \$125}{(100 + 25)} = \$1,125/125 = \$9.00$$

New shareholders gain  $25 \times \$4.00 = \$100$  while old shareholders lose  $100 \times \$1.00 = \$100$ . Thus, the new issue results in a transfer of wealth from existing to new shareholders.

## 10.2 Magnitude of Flotation Costs

The flotation cost allowance requires an estimated adjustment to the return on equity of approximately 5% to 10%, depending on the size and risk of the issue. A more precise figure can be obtained by surveying empirical studies on utility security offerings.<sup>2</sup>

According to empirical studies by Lee et al. (1996), Borum and Malley (1986), Logue and Jarrow (1978), Pettway (1984), Pettway and Radcliffe (1985), Eckbo and Masulis (1987), Bhagat and Frost (1986), Mikkelson and Partch (1986) and Smith (1977, 1986), underwriting costs and expenses average 4%–5.5% of gross proceeds for utility stock offerings. The more recent study by Lee et al. (1996) finds an average flotation cost of 4.92% for utility common stock offerings, and finds that flotation costs increase progressively for smaller size issues.

As far as the market pressure effect is concerned, empirical studies clearly show that the market pressure effect is real, tangible, and measurable. All the studies support the idea that the announcement of the sale of large blocks of stock produces a decline in a company's stock price, as one would expect

<sup>2</sup> The common practice of issuing common equity shares by public utilities is through a firm public underwriting. In recent years, this practice has given way to shelf registrations. Shelf registrations are cheaper than firm underwritings and will over time decrease the average cost of issuing equity, as the lower marginal cost of bought deals gradually lowers the historical average cost of raising equity. "Bought deals," which is a uniquely Canadian practice, bear strong resemblance to the shelf registration procedure in the U.S.

**Application of Yankee Gas Services Company for a Rate Increase, DPUC Docket No. 04-06-01  
Direct Testimony of George J. Eckenroth (Jul. 2, 2004) at Exhibit GJE-11.1**

**All Secondary Utility Equity Offerings Since 1/1/2001 \$100MM to \$500MM**

Stock Ticker Symbol	Filing date	Pricing date	Issuer	Amount (\$MM)	Gross Spread (%)	Industry	Bookrunner
GXP	04 Jun 2004	08 Jun 2004	Great Plains Energy Inc	150.0	3.50	Utility-Electric Power	ML
WR	17 Mar 2004	25 Mar 2004	Westar Energy Inc	249.3	3.50	Utility-Electric Power	SSB, LEHMAN, WCHV
UGI	22 Jan 2004	18 Mar 2004	UGI Corp	249.7	4.38	Utility-Diversified	CSFB
HE	09 Mar 2004	10 Mar 2004	Hawaiian Electric Industries Inc	103.7	4.00	Utility-Electric Power	ML
PNY	12 Jan 2004	20 Jan 2004	Piedmont Natural Gas Co Inc	180.6	3.51	Utility-Gas Distribution	ML
WPS	13 Nov 2003	19 Nov 2003	WPS Resources Corp	173.1	3.50	Utility-Diversified	AGEDW
SRE	07 Oct 2003	08 Oct 2003	Sempra Energy	462.0	3.00	Utility-Diversified	SSB, JPMHQ, MS
PEG	30 Sep 2003	01 Oct 2003	Public Service Enterprise Group Inc - PSEG	367.1	3.00	Utility-Electric Power	SSB, MS
OGE	19 Aug 2003	21 Aug 2003	OGE Energy Corp	115.0	3.66	Utility-Electric Power	LEHMAN
VVC	31 Jul 2003	07 Aug 2003	Vectren Corp	169.7	3.50	Utility-Diversified	GS
LNT	25 Jun 2003	01 Jul 2003	Alliant Energy Corp	332.1	4.00	Utility-Diversified	BOFA, ML
ATO	17 Jun 2003	18 Jun 2003	Atmos Energy Corp	103.8	4.00	Utility-Gas Distribution	ML
AES	16 Jun 2003	17 Jun 2003	AES Corp	346.2	3.25	Utility-Electric Power	BOFA, LEHMAN
SUG	30 May 2003	05 Jun 2003	Southern Union Co	174.8	3.50	Utility-Gas Distribution	JPMHQ, ML
PPL	14 May 2003	15 May 2003	PPL Corp	270.0	3.25	Utility-Electric Power	MS, SSB, JPMHQ
BKH	21 Apr 2003	24 Apr 2003	Black Hills Corp	124.2	4.75	Utility-Electric Power	CSFB, LEHMAN
ATG	31 Jan 2003	11 Feb 2003	AGL Resources Inc	141.7	3.50	Utility-Gas Distribution	MS, BOFA
AEE	13 Jan 2003	14 Jan 2003	Ameren Corp	222.8	3.26	Utility-Electric Power	GS
PNW	16 Dec 2002	17 Dec 2002	Pinnacle West Capital Corp	206.5	3.50	Utility-Electric Power	SSB, CSFB
POM	09 Dec 2002	09 Dec 2002	Pepco Holdings Inc	110.0	3.90	Utility-Electric Power	ML
GXP	14 Nov 2002	21 Nov 2002	Great Plains Energy Inc	151.8	3.75	Utility-Electric Power	ML
PEG	11 Nov 2002	12 Nov 2002	Public Service Enterprise Group Inc - PSEG	458.0	3.25	Utility-Electric Power	JPMHQ, ML, MS
TE	08 Oct 2002	10 Oct 2002	TECO Energy Inc	213.2	3.00	Utility-Electric Power	MS
SCG	30 Sep 2002	09 Oct 2002	SCANA Corp	150.6	3.25	Utility-Electric Power	UBSW, BOFA
PSC	08 Jul 2002	19 Sep 2002	Philadelphia Suburban Corp	180.4	4.27	Utility-Water Supply	ALEX, UBSW
AEE	03 Sep 2002	04 Sep 2002	Ameren Corp	338.1	3.26	Utility-Electric Power	GS
ILA	19 Jun 2002	27 Jun 2002	Aquila Inc	281.3	3.25	Utility-Electric Power	CSFB
DQE	12 Jun 2002	20 Jun 2002	Duquesne Light Holdings Inc	232.9	3.75	Utility-Electric Power	LEHMAN
DTE	14 Jun 2002	19 Jun 2002	DTE Energy Co	273.6	3.25	Utility-Electric Power	SSB, UBSW
FPL	03 Jun 2002	06 Jun 2002	FPL Group Inc	325.5	3.00	Utility-Electric Power	GS, ML
TE	30 May 2002	04 Jun 2002	TECO Energy Inc	357.1	3.00	Utility-Electric Power	UBSW, CSFB
AEE	19 Feb 2002	26 Feb 2002	Ameren Corp	227.1	3.49	Utility-Electric Power	GS
ILA	22 Jan 2002	24 Jan 2002	Aquila Inc	287.5	3.25	Utility-Electric Power	SSB, UBSW
LNT	25 Oct 2001	08 Nov 2001	Alliant Energy Corp	273.7	3.75	Utility-Diversified	ML
SRP	24 Jul 2001	09 Aug 2001	Sierra Pacific Resources	353.6	3.75	Utility-Electric Power	ML
ORN	11 May 2001	31 May 2001	Orion Power Holdings Inc	355.6	4.25	Utility-Electric Power	GS
ALE	09 May 2001	23 May 2001	ALLETE Inc	153.9	4.00	Utility-Electric Power	UBSW
BKH	22 Mar 2001	18 Apr 2001	Black Hills Corp	175.9	5.50	Utility-Electric Power	CSFB
NRG	16 Feb 2001	07 Mar 2001	NRG Energy Inc	496.8	4.52	Utility-Electric Power	CSFB, ML
TE	20 Feb 2001	06 Mar 2001	TECO Energy Inc	239.3	3.00	Utility-Electric Power	CSFB
ILA	23 Feb 2001	05 Mar 2001	Aquila Inc	342.2	2.76	Utility-Electric Power	ML
VVC	19 Jan 2001	08 Feb 2001	Vectren Corp	134.5	3.48	Utility-Diversified	ML
			<b>Mean</b>	<b>244.16</b>	<b>3.60</b>		
			<b>Median</b>	<b>230.00</b>	<b>3.50</b>		

**Notes**

1. Source: Equidesk
2. Excludes Block Trades
3. Includes all utility marketed offerings between \$100MM - \$500MM. Offering amount includes proceeds raised through exercise of greenshoe (where applicable)
4. U.S. offerings only

Docket No. 04-06-01  
Exhibit GJE-11.1  
Page 1 of 1

Application of Yankee Gas Services Company for a Rate Increase, DPUC Docket No. 04-06-01  
Direct Testimony of George J. Eckenroth (Jul. 2, 2004) at Exhibit GJE-11.1  
Updated Through April 2005  
All Secondary Utility Equity Offerings Since 1/1/2001 \$100MM to \$500MM

Stock					Amount	Gross		
Ticker Symbol	Filing date	Pricing date	Issuer		(\$MM)	Spread (%)	Industry	Bookrunner
VVC	19 Jan 2001	08 Feb 2001	Vectren Corp		134.5	3.48	Utility-Diversified	ML
ILA	23 Feb 2001	05 Mar 2001	Aquila Inc		342.2	2.76	Utility-Electric Power	ML
TE	20 Feb 2001	06 Mar 2001	TECO Energy Inc		239.3	3.00	Utility-Electric Power	CSFB
NRG	16 Feb 2001	07 Mar 2001	NRG Energy Inc		496.8	4.52	Utility-Electric Power	CSFB, ML
BKH	22 Mar 2001	18 Apr 2001	Black Hills Corp		175.9	5.50	Utility-Electric Power	CSFB
ALE	09 May 2001	23 May 2001	ALLETE Inc		153.9	4.00	Utility-Electric Power	UBSW
ORN	11 May 2001	31 May 2001	Orion Power Holdings Inc		355.6	4.25	Utility-Electric Power	GS
SRP	24 Jul 2001	09 Aug 2001	Sierra Pacific Resources		353.6	3.75	Utility-Electric Power	ML
LNT	25 Oct 2001	08 Nov 2001	Alliant Energy Corp		273.7	3.75	Utility-Diversified	ML
ILA	22 Jan 2002	24 Jan 2002	Aquila Inc		287.5	3.25	Utility-Electric Power	SSB, UBSW
AEE	19 Feb 2002	26 Feb 2002	Ameren Corp		227.1	3.49	Utility-Electric Power	GS
TE	30 May 2002	04 Jun 2002	TECO Energy Inc		357.1	3.00	Utility-Electric Power	UBSW, CSFB
FPL	03 Jun 2002	06 Jun 2002	FPL Group Inc		325.5	3.00	Utility-Electric Power	GS, ML
DTE	14 Jun 2002	19 Jun 2002	DTE Energy Co		273.6	3.25	Utility-Electric Power	SSB, UBSW
DQE	12 Jun 2002	20 Jun 2002	Duquesne Light Holdings Inc		232.9	3.75	Utility-Electric Power	LEHMAN
ILA	19 Jun 2002	27 Jun 2002	Aquila Inc		281.3	3.25	Utility-Electric Power	CSFB
AEE	03 Sep 2002	04 Sep 2002	Ameren Corp		338.1	3.26	Utility-Electric Power	GS
PSC	08 Jul 2002	19 Sep 2002	Philadelphia Suburban Corp		180.4	4.27	Utility-Water Supply	ALEX, UBSW
SCG	30 Sep 2002	09 Oct 2002	SCANA Corp		150.6	3.25	Utility-Electric Power	UBSW, BOFA
TE	08 Oct 2002	10 Oct 2002	TECO Energy Inc		213.2	3.00	Utility-Electric Power	MS
PEG	11 Nov 2002	12 Nov 2002	Public Service Enterprise Group Inc - PSEG		458.0	3.25	Utility-Electric Power	JPMHQ, ML, MS
GXP	14 Nov 2002	21 Nov 2002	Great Plains Energy Inc		151.8	3.75	Utility-Electric Power	ML
POM	09 Dec 2002	09 Dec 2002	Pepco Holdings Inc		110.0	3.90	Utility-Electric Power	ML
PNW	16 Dec 2002	17 Dec 2002	Pinnacle West Capital Corp		206.5	3.50	Utility-Electric Power	SSB, CSFB
AEE	13 Jan 2003	14 Jan 2003	Ameren Corp		222.8	3.26	Utility-Electric Power	GS
ATG	31 Jan 2003	11 Feb 2003	AGL Resources Inc		141.7	3.50	Utility-Gas Distribution	MS, BOFA
BKH	21 Apr 2003	24 Apr 2003	Black Hills Corp		124.2	4.75	Utility-Electric Power	CSFB, LEHMAN
PPL	14 May 2003	15 May 2003	PPL Corp		270.0	3.25	Utility-Electric Power	MS, SSB, JPMHQ
SUG	30 May 2003	05 Jun 2003	Southern Union Co		174.8	3.50	Utility-Gas Distribution	JPMHQ, ML
AES	16 Jun 2003	17 Jun 2003	AES Corp		346.2	3.25	Utility-Electric Power	BOFA, LEHMAN
ATO	17 Jun 2003	18 Jun 2003	Atmos Energy Corp		103.8	4.00	Utility-Gas Distribution	ML
LNT	25 Jun 2003	01 Jul 2003	Alliant Energy Corp		332.1	4.00	Utility-Diversified	BOFA, ML
VVC	31 Jul 2003	07 Aug 2003	Vectren Corp		169.7	3.50	Utility-Diversified	GS
OGE	19 Aug 2003	21 Aug 2003	OGE Energy Corp		115.0	3.66	Utility-Electric Power	LEHMAN
PEG	30 Sep 2003	01 Oct 2003	Public Service Enterprise Group Inc - PSEG		367.1	3.00	Utility-Electric Power	SSB, MS
SRE	07 Oct 2003	08 Oct 2003	Sempra Energy		462.0	3.00	Utility-Diversified	SSB, JPMHQ, MS
WPS	13 Nov 2003	19 Nov 2003	WPS Resources Corp		173.1	3.50	Utility-Diversified	AGEDW
PNY	12 Jan 2004	20 Jan 2004	Piedmont Natural Gas Co Inc		180.6	3.51	Utility-Gas Distribution	ML
PNY	12 Jan 2004	20 Jan 2004	Piedmont Natural Gas Co Inc		180.6	3.51	Utility - Gas Distribution	ML
HE	09 Mar 2004	10 Mar 2004	Hawaiian Electric Industries Inc		103.7	4.00	Utility-Electric Power	ML
HE	09 Mar 2004	10 Mar 2004	Hawaiian Electric Industries Inc		103.7	4.00	Utility - Electric Power	ML
UGI	22 Jan 2004	18 Mar 2004	UGI Corp		249.7	4.38	Utility-Diversified	CSFB
UGI	22 Jan 2004	18 Mar 2004	UGI Corp		249.7	4.38	Utility - Diversified	CSFB
WR	17 Mar 2004	25 Mar 2004	Westar Energy Inc		249.3	3.50	Utility-Electric Power	SSB, LEHMAN, WCHV
WR	17 Mar 2004	25 Mar 2004	Westar Energy Inc		249.3	3.50	Utility - Electric Power	CITI, LEH, WCHV
GXP	04 Jun 2004	08 Jun 2004	Great Plains Energy Inc		150.0	3.50	Utility-Electric Power	ML
GXP	04 Jun 2004	08 Jun 2004	Great Plains Energy Inc		150.0	3.50	Utility - Electric Power	ML
AEE	30 Jun 2004	30 Jun 2004	Ameren Corp		458.9	3.00	Utility - Electric Power	GS
ATO	07 Jul 2004	13 Jul 2004	Atmos Energy Corp		246.2	4.00	Utility - Gas Distribution	ML
SUG	20 Jul 2004	26 Jul 2004	Southern Union Co		237.2	3.50	Utility - Gas Distribution	JPM, ML
ILA	16 Aug 2004	18 Aug 2004	Aquila Inc		117.3	3.88	Utility - Electric Power	LEH
POM	07 Sep 2004	09 Sep 2004	Pepco Holdings Inc		287.8	3.50	Utility - Electric Power	ML, CSFB
CMS	04 Oct 2004	07 Oct 2004	CMS Energy Corp		298.3	3.50	Utility - Electric Power	CITI, JPM, ML
ATO	14 Oct 2004	21 Oct 2004	Atmos Energy Corp		398.5	4.00	Utility - Gas Distribution	ML
ATG	15 Nov 2004	18 Nov 2004	AGL Resources Inc		342.4	3.00	Utility - Gas Distribution	MS, JPM
IDA	07 Dec 2004	09 Dec 2004	Idacorp Inc		120.8	4.00	Utility - Electric Power	MS
SUG	07 Feb 2005	07 Feb 2005	Southern Union Co		343.0	3.04	Utility - Gas Distribution	ML, JPM
PNM	18 Mar 2005	23 Mar 2005	PNM Resources Inc		104.6	3.25	Utility - Electric Power	MS, BOFA, WCHV
CMS	28 Mar 2005	30 Mar 2005	CMS Energy Corp		281.8	3.50	Utility - Electric Power	CITI, JPM, DB, WCHV
PNW	26 Apr 2005	27 Apr 2005	Pinnacle West Capital Corp		256.0	3.25	Utility - Electric Power	LEH
<b>Mean</b>					<b>244.68</b>	<b>3.59</b>		

Notes

1. Source: Exhibit GJE-11.1, Equidest
2. Excludes Block Trades
3. Includes all utility marketed offerings between \$100MM - \$500MM. Offering amount includes proceeds raised through exercise of greenshoe (where applicable)
4. U.S. offerings only

# Value Line Forecast for the U.S. Economy

	ACTUAL					Estimated				
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>GROSS DOMESTIC PRODUCT AND ITS COMPONENTS (2009 CHAIN WEIGHTED \$) BILLIONS OF DOLLARS</b>										
Final Sales	14979	15292	15521	15882	16263	16598	17069	17513	17933	18345
Total Consumption	10264	10413	10565	10876	11212	11525	11869	12225	12567	12894
Nonresidential Fixed Investment	1803	1964	2033	2148	2199	2186	2273	2386	2482	2581
Structures	375	423	428	465	443	421	442	464	483	497
Equipment & Software	848	939	982	1026	1073	1051	1087	1142	1199	1247
Residential Fixed Investment	385	437	488	487	541	571	602	638	664	690
Exports	1898	1963	2032	2087	2093	2085	2140	2226	2326	2442
Imports	2358	2410	2436	2529	2642	2673	2793	2932	3050	3172
Federal Government	1236	1214	1143	1117	1118	1126	1136	1125	1114	1108
State & Local Governments	1761	1728	1714	1721	1763	1784	1799	1817	1836	1845
Gross Domestic Product	15518	16155	16692	17393	18037	18518	19346	20306	21292	22326
Real GDP (2009 Chain Weighted \$)	15021	15355	15612	15982	16397	16634	17028	17487	17942	18391
<b>PRICES AND WAGES-ANNUAL RATES OF CHANGE</b>										
GDP Deflator	2.0	1.8	1.6	1.8	1.1	1.6	2.1	2.2	2.2	2.3
CPI-All Urban Consumers	3.1	2.1	1.5	1.6	0.4	1.4	2.5	2.5	2.6	2.7
PPI-Finished Goods	6.0	1.9	1.2	1.9	-3.2	0.7	3.0	2.5	2.6	2.8
Employment Cost Index—Total Comp.	2.1	1.9	1.9	2.1	1.9	2.4	2.8	3.1	3.2	3.2
Productivity	0.5	0.9	0.0	0.7	0.5	0.2	1.1	1.7	1.5	1.5
<b>PRODUCTION AND OTHER KEY MEASURES</b>										
Industrial Prod. (% Change)	3.3	2.8	1.9	3.7	-1.6	-0.2	2.1	3.0	2.8	2.8
Factory Operating Rate (%)	73.9	74.5	74.1	75.3	75.5	75.1	75.2	75.5	75.3	75.0
Nonfarm Inven. Change (2009 Chain Weighted \$)	39.7	72.7	54.3	65.0	88.1	17.3	21.3	55.0	50.0	45.0
Housing Starts (Mill. Units)	0.61	0.78	0.93	1.00	1.11	1.18	1.37	1.50	1.55	1.55
Existing House Sales (Mill. Units)	4.28	4.66	5.07	4.92	5.23	5.46	5.53	5.55	5.50	5.45
Total Light Vehicle Sales (Mill. Units)	12.7	14.4	15.5	16.4	17.4	17.5	17.9	17.8	17.5	17.3
National Unemployment Rate (%)	8.9	8.1	7.4	6.2	5.3	4.9	4.7	4.7	4.8	4.8
Federal Budget Surplus (Unified, FY, \$Bill)	-1297	-1089	-680	-483	-479	-535	-550	-500	-600	-600
Price of Oil (\$Bbl., U.S. Refiners' Cost)	101.75	101.00	100.47	92.23	48.41	41.05	49.50	49.00	55.00	63.00
<b>MONEY AND INTEREST RATES</b>										
3-Month Treasury Bill Rate (%)	0.1	0.1	0.1	0.1	0.1	0.3	0.9	1.6	2.3	2.8
Federal Funds Rate (%)	0.1	0.1	0.1	0.1	0.1	0.4	1.0	1.7	2.7	3.0
10-Year Treasury Note Rate (%)	2.8	1.8	2.4	2.5	2.2	1.8	2.3	2.8	3.5	3.7
Long-Term Treasury Bond Rate (%)	3.9	2.9	3.5	3.3	2.9	2.6	3.3	3.6	4.2	4.4
AAA Corporate Bond Rate (%)	4.6	3.7	4.2	4.2	3.9	3.7	4.4	4.8	5.2	5.3
Prime Rate (%)	3.3	3.3	3.3	3.3	3.3	3.6	4.6	3.5	3.5	4.0
<b>INCOMES</b>										
Personal Income (% Change)	6.1	5.0	1.1	4.4	3.9	3.2	4.9	5.0	5.0	5.0
Real Disp. Inc. (% Change)	2.4	3.1	-1.4	2.7	3.1	2.1	2.7	3.0	3.0	2.8
Personal Savings Rate (%)	5.7	7.6	4.8	4.8	5.8	5.7	5.6	6.0	6.3	6.5
After-Tax Profits (\$Bill)	1473	1683	1693	1694	1588	1670	1785	1839	1968	2066
Yr-to-Yr % Change	0.6	17.9	0.6	0.1	-6.3	5.2	6.9	3.0	7.0	5.0
<b>COMPOSITION OF REAL GDP-ANNUAL RATES OF CHANGE</b>										
Gross Domestic Product	1.6	2.2	1.7	2.4	2.6	1.4	2.4	2.7	2.6	2.5
Final Sales	1.7	2.1	1.5	2.3	2.4	2.1	2.8	2.6	2.4	2.3
Total Consumption	2.3	1.5	1.5	2.9	3.1	2.8	3.0	3.0	2.8	2.6
Nonresidential Fixed Investment	7.7	9.0	3.5	5.7	2.4	-0.6	3.9	5.0	4.0	4.0
Structures	2.3	12.9	1.2	8.5	-4.7	-4.9	5.0	5.0	4.0	3.0
Equipment & Software	13.6	10.8	4.6	4.5	4.5	-2.0	3.4	5.0	5.0	4.0
Residential Fixed Investment	0.5	13.5	11.7	-0.3	11.3	5.5	5.5	6.0	4.0	4.0
Exports	6.9	3.4	3.5	2.7	0.3	-0.4	2.7	4.0	4.5	5.0
Imports	5.5	2.2	1.1	3.8	4.5	1.2	4.5	5.0	4.0	4.0
Federal Government	-2.7	-1.9	-5.8	-2.3	0.1	0.8	0.9	-1.0	-1.0	-0.5
State & Local Governments	-3.3	-1.9	-0.8	0.4	2.4	1.2	0.9	1.0	1.0	0.5

<b>Long Label</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Rate on Aa-rated public utility bonds Source: Hist	5.84	5.94	6.19	5.75	5.23	4.78	3.83	4.24
Rate on 90-day prime commercial paper Source:	5.03	4.99	2.12	0.26	0.23	0.17	0.19	0.11
Chained price index--gross domestic product Sou	94.81	97.34	99.22	100.00	101.23	103.32	105.22	106.94
Consumer price index, all-urban Source: BLS Unit	2.02	2.07	2.15	2.15	2.18	2.25	2.30	2.33
Rate on 3-month eurodollar deposits Source: Reu	5.19	5.30	2.91	0.69	0.34	0.34	0.43	0.27



Long Label	2014	2015	2016	2017	2018	2019	2020	2021
Rate on Aa-rated public utility bonds Source: Hist	4.19	3.99	4.46	4.88	5.31	5.62	5.62	5.62
Rate on 90-day prime commercial paper Source:	0.10	0.17	0.64	1.56	2.58	3.11	3.11	3.11
Chained price index--gross domestic product Sou	108.69	109.78	111.34	113.39	115.70	118.07	120.61	123.25
Consumer price index, all-urban Source: BLS Unit	2.37	2.37	2.39	2.44	2.51	2.57	2.64	2.71
Rate on 3-month eurodollar deposits Source: Reu	0.23	0.32	0.82	1.68	2.74	3.29	3.29	3.29

Long Label	2022	2023	2024	2025	2026
Rate on Aa-rated public utility bonds Source: Hist	5.62	5.62	5.62	5.62	5.62
Rate on 90-day prime commercial paper Source:	3.11	3.11	3.11	3.11	3.11
Chained price index--gross domestic product Sou	125.90	128.47	131.04	133.68	136.39
Consumer price index, all-urban Source: BLS Unit	2.78	2.85	2.92	2.99	3.06
Rate on 3-month eurodollar deposits Source: Reu	3.29	3.29	3.29	3.29	3.29

Description	2011	2012	2013	2014	2015	2016
Yield on 10-year treasury notes, percent per annum, FRB	2.79	1.80	2.35	2.54	2.14	2.22
Yield on 30-year treasury bonds, percent per annum, FRB	3.91	2.92	3.45	3.34	2.84	2.94
Gross domestic product, billions of dollars, annual rate, BEA	15,517.93	16,155.25	16,663.15	17,348.08	17,937.85	18,624.11
Chained price index--gross domestic product, 2009=100, BEA	103.32	105.22	106.94	108.69	109.78	111.34

Description	2017	2018	2019	2020	2021	2022
Yield on 10-year treasury notes, percent per annum, FRB	2.57	3.13	3.65	3.65	3.65	3.65
Yield on 30-year treasury bonds, percent per annum, FRB	3.20	3.62	4.11	4.11	4.11	4.11
Gross domestic product, billions of dollars, annual rate, BEA	19,502.87	20,418.76	21,340.36	22,324.95	23,313.83	24,348.32
Chained price index--gross domestic product, 2009=100, BEA	113.39	115.70	118.07	120.61	123.25	125.90

Description	2023	2024	2025	2026	2027	2028
Yield on 10-year treasury notes, percent per annum, FRB	3.65	3.65	3.65	3.65	3.65	3.65
Yield on 30-year treasury bonds, percent per annum, FRB	4.11	4.11	4.11	4.11	4.11	4.11
Gross domestic product, billions of dollars, annual rate, BEA	25,405.18	26,479.81	27,604.97	28,792.35	30,006.02	31,287.92
Chained price index--gross domestic product, 2009=100, BEA	128.47	131.04	133.68	136.39	139.25	142.10

Description	2029	2030	2031	2032	2033	2034
Yield on 10-year treasury notes, percent per annum, FRB	3.65	3.65	3.65	3.65	3.65	3.65
Yield on 30-year treasury bonds, percent per annum, FRB	4.11	4.11	4.11	4.11	4.11	4.11
Gross domestic product, billions of dollars, annual rate, BEA	32,631.04	34,034.73	35,506.25	37,024.23	38,629.46	40,337.13
Chained price index--gross domestic product, 2009=100, BEA	144.98	147.97	151.10	154.32	157.64	161.04

Description	2035	2036	2037	2038	2039	2040
Yield on 10-year treasury notes, percent per annum, FRB	3.65	3.65	3.65	3.65	3.65	3.65
Yield on 30-year treasury bonds, percent per annum, FRB	4.11	4.11	4.11	4.11	4.11	4.11
Gross domestic product, billions of dollars, annual rate, BEA	42,122.80	43,962.83	45,865.63	47,873.36	49,949.79	52,090.46
Chained price index--gross domestic product, 2009=100, BEA	164.49	168.05	171.68	175.41	179.25	183.18



Description	2041	2042	2043	2044	2045	2046
Yield on 10-year treasury notes, percent per annum, FRB	3.65	3.65	3.65	3.65	3.65	3.65
Yield on 30-year treasury bonds, percent per annum, FRB	4.11	4.11	4.11	4.11	4.11	4.11
Gross domestic product, billions of dollars, annual rate, BEA	54,318.06	56,658.69	59,116.80	61,691.34	64,347.09	67,142.48
Chained price index--gross domestic product, 2009=100, BEA	187.24	191.43	195.73	200.16	204.69	209.36

Indicators	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Real Gross Domestic Product</b>	<b>15,962</b>	<b>16,349</b>	<b>16,841</b>	<b>17,335</b>	<b>17,740</b>	<b>18,155</b>	<b>18,555</b>	<b>18,928</b>	<b>19,337</b>	<b>19,811</b>	<b>20,287</b>
<b>Components of Real Gross Domestic Product</b>											
Real Consumption	10,876	11,221	11,577	11,961	12,283	12,606	12,861	13,106	13,368	13,665	13,990
Real Investment	2,718	2,842	2,996	3,201	3,315	3,400	3,513	3,593	3,699	3,837	3,959
Real Government Spending	2,838	2,860	2,919	2,935	2,946	2,956	2,967	2,968	2,983	3,007	3,034
Real Exports	2,086	2,119	2,193	2,291	2,382	2,489	2,615	2,757	2,906	3,068	3,225
Real Imports	2,529	2,662	2,815	3,030	3,165	3,274	3,374	3,465	3,582	3,723	3,874
<b>Energy Intensity</b>											
<b>(thousand Btu per 2009 dollar of GDP)</b>											
Delivered Energy	4.52	4.38	4.30	4.22	4.17	4.10	4.03	3.96	3.88	3.81	3.73
Total Energy	6.15	5.92	5.79	5.69	5.60	5.52	5.42	5.33	5.22	5.12	5.00
<b>Price Indices</b>											
GDP Chain-type Price Index (2009=1.000)	1.087	1.098	1.119	1.142	1.165	1.188	1.213	1.242	1.270	1.295	1.319
<b>Consumer Price Index (1982-84=1.00)</b>											
All-urban	2.37	2.37	2.39	2.45	2.52	2.59	2.65	2.72	2.80	2.86	2.92
Energy Commodities and Services	2.43	2.02	1.82	1.95	2.09	2.28	2.41	2.52	2.61	2.70	2.78
<b>Wholesale Price Index (1982=1.00)</b>											
All Commodities	2.05	1.91	1.89	1.95	2.01	2.08	2.14	2.19	2.24	2.29	2.33
Fuel and Power	2.10	1.60	1.49	1.64	1.78	1.96	2.10	2.18	2.26	2.36	2.45
Metals and Metal Products	2.15	2.01	1.97	2.03	2.08	2.11	2.15	2.20	2.24	2.29	2.32
Industrial Commodities excluding Energy	1.98	1.94	1.96	2.01	2.05	2.09	2.13	2.18	2.22	2.26	2.30
<b>Interest Rates (percent, nominal)</b>											
Federal Funds Rate	0.09	0.13	0.89	1.88	2.79	3.33	3.32	3.22	3.03	3.02	3.13
10-Year Treasury Note	2.54	2.14	2.57	2.72	3.27	3.86	3.83	3.77	3.64	3.60	3.62
AA Utility Bond Rate	4.19	4.01	4.53	4.74	5.30	5.87	5.87	5.74	5.49	5.35	5.34

Indicators	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
<b>Real Gross Domestic Product</b>	<b>20,765</b>	<b>21,227</b>	<b>21,699</b>	<b>22,179</b>	<b>22,638</b>	<b>23,113</b>	<b>23,588</b>	<b>24,054</b>	<b>24,551</b>	<b>25,074</b>	<b>25,598</b>
<b>Components of Real Gross Domestic Product</b>											
Real Consumption	14,348	14,695	15,036	15,401	15,747	16,092	16,446	16,800	17,155	17,517	17,881
Real Investment	4,068	4,165	4,257	4,341	4,422	4,520	4,619	4,693	4,796	4,921	5,051
Real Government Spending	3,056	3,083	3,115	3,149	3,183	3,222	3,252	3,285	3,320	3,358	3,396
Real Exports	3,374	3,525	3,684	3,850	4,012	4,178	4,355	4,536	4,722	4,913	5,105
Real Imports	4,032	4,186	4,333	4,497	4,656	4,824	5,003	5,171	5,345	5,529	5,721
<b>Energy Intensity</b>											
<b>(thousand Btu per 2009 dollar of GDP)</b>											
Delivered Energy	3.65	3.57	3.50	3.42	3.36	3.29	3.24	3.18	3.13	3.08	3.04
Total Energy	4.89	4.78	4.68	4.57	4.48	4.39	4.32	4.25	4.18	4.12	4.06
<b>Price Indices</b>											
GDP Chain-type Price Index (2009=1.000)	1.344	1.371	1.398	1.426	1.455	1.486	1.518	1.552	1.586	1.622	1.659
<b>Consumer Price Index (1982-84=1.00)</b>											
All-urban	2.99	3.05	3.12	3.19	3.27	3.35	3.43	3.51	3.60	3.69	3.78
Energy Commodities and Services	2.87	2.97	3.06	3.14	3.25	3.34	3.45	3.56	3.69	3.81	3.92
<b>Wholesale Price Index (1982=1.00)</b>											
All Commodities	2.37	2.41	2.45	2.50	2.55	2.59	2.65	2.70	2.76	2.82	2.87
Fuel and Power	2.53	2.60	2.67	2.74	2.83	2.91	3.00	3.10	3.21	3.30	3.39
Metals and Metal Products	2.35	2.38	2.42	2.46	2.50	2.55	2.59	2.64	2.69	2.75	2.80
Industrial Commodities excluding Energy	2.33	2.37	2.41	2.44	2.48	2.53	2.57	2.62	2.67	2.72	2.76
<b>Interest Rates (percent, nominal)</b>											
Federal Funds Rate	3.22	3.26	3.21	3.21	3.24	3.24	3.25	3.25	3.23	3.25	3.23
10-Year Treasury Note	3.66	3.69	3.68	3.70	3.74	3.77	3.79	3.81	3.82	3.84	3.82
AA Utility Bond Rate	5.41	5.52	5.55	5.59	5.68	5.73	5.78	5.83	5.85	5.88	5.85

<b>Indicators</b>	<b>2036</b>	<b>2037</b>	<b>2038</b>	<b>2039</b>	<b>2040</b>
<b>Real Gross Domestic Product</b>	<b>26,140</b>	<b>26,688</b>	<b>27,255</b>	<b>27,821</b>	<b>28,397</b>
<b>Components of Real Gross Domestic Product</b>					
Real Consumption	18,262	18,648	19,053	19,466	19,870
Real Investment	5,174	5,294	5,415	5,532	5,661
Real Government Spending	3,434	3,473	3,514	3,555	3,602
Real Exports	5,299	5,501	5,702	5,908	6,113
Real Imports	5,905	6,094	6,284	6,484	6,683
<b>Energy Intensity</b>					
<b>(thousand Btu per 2009 dollar of GDP)</b>					
Delivered Energy	2.99	2.95	2.91	2.87	2.83
Total Energy	3.99	3.94	3.88	3.82	3.77
<b>Price Indices</b>					
GDP Chain-type Price Index (2009=1.000)	1.695	1.733	1.771	1.809	1.848
<b>Consumer Price Index (1982-84=1.00)</b>					
All-urban	3.88	3.97	4.07	4.17	4.27
Energy Commodities and Services	4.05	4.17	4.32	4.46	4.61
<b>Wholesale Price Index (1982=1.00)</b>					
All Commodities	2.92	2.98	3.04	3.10	3.16
Fuel and Power	3.48	3.58	3.69	3.81	3.92
Metals and Metal Products	2.85	2.90	2.96	3.01	3.06
Industrial Commodities excluding Energy	2.81	2.86	2.91	2.96	3.01
<b>Interest Rates (percent, nominal)</b>					
Federal Funds Rate	3.22	3.20	3.18	3.10	3.08
10-Year Treasury Note	3.81	3.79	3.78	3.72	3.72
AA Utility Bond Rate	5.85	5.80	5.79	5.73	5.71

**October 28, 2016**

**TABLE OF SUMMARY & INDEX CONTENTS**

**Summary & Index  
Page Number**

Industries, in alphabetical order .....	1
Stocks, in alphabetical order .....	2-23
Noteworthy Rank Changes .....	24

**SCREENS**

Industries, in order of Timeliness Rank .....	24	Stocks with Lowest P/Es .....	35
Timely Stocks in Timely Industries .....	25-26	Stocks with Highest P/Es .....	35
Timely Stocks (1 & 2 for Performance) .....	27-29	Stocks with Highest Annual Total Returns .....	36
Conservative Stocks (1 & 2 for Safety) .....	30-31	Stocks with Highest 3- to 5-year Dividend Yield ....	36
Highest Dividend Yielding Stocks .....	32	High Returns Earned on Total Capital .....	37
Stocks with High 3- to 5-year Price Potential .....	32	Bargain Basement Stocks .....	37
Biggest "Free Flow" Cash Generators .....	33	Untimely Stocks (5 for Performance) .....	38
Best Performing Stocks last 13 Weeks .....	33	Highest Dividend Yielding Non-utility Stocks .....	38
Worst Performing Stocks last 13 Weeks .....	33	Highest Growth Stocks .....	39
Widest Discounts from Book Value .....	34		

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

**18.4**

<b>26 Weeks Ago</b>	<b>Market Low</b>	<b>Market High</b>
18.9	10.3	18.8

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

**2.2%**

<b>26 Weeks Ago</b>	<b>Market Low</b>	<b>Market High</b>
2.2%	4.0%	2.2%

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

**40%**

<b>26 Weeks Ago</b>	<b>Market Low</b>	<b>Market High</b>
45%	185%	40%

**ANALYSES OF INDUSTRIES IN ALPHABETICAL ORDER WITH PAGE NUMBER**

Numeral in parenthesis after the industry is rank for probable performance (next 12 months).

	<b>PAGE</b>		<b>PAGE</b>		<b>PAGE</b>		<b>PAGE</b>
Advertising (66) .....	2392	*Electric Utility (West) (31) .....	2224	Investment Co.(Foreign) (-) .....	422	Railroad (91) .....	338
Aerospace/Defense (59) .....	701	Electronics (56) .....	1318	Machinery (68) .....	1701	R.E.I.T. (50) .....	1511
Air Transport (92) .....	301	Engineering & Const (35) .....	1233	Maritime (53) .....	329	Recreation (85) .....	2301
*Apparel (86) .....	2101	Entertainment (76) .....	2329	Medical Services (70) .....	792	Reinsurance (33) .....	2019
Automotive (60) .....	101	Entertainment Tech (44) .....	2005	Med Supp Invasive (48) .....	170	Restaurant (87) .....	350
Auto Parts (93) .....	974	Environmental (24) .....	412	Med Supp Non-Invasive (39) .....	196	*Retail Automotive (95) .....	2118
Bank (51) .....	2501	Financial Svcs. (Div.) (58) .....	2532	Metal Fabricating (17) .....	728	Retail Building Supply (72) .....	1137
Bank (Midwest) (19) .....	774	Food Processing (49) .....	1901	Metals & Mining (Div.) (2) .....	1580	*Retail (Hardlines) (61) .....	2162
Beverage (38) .....	1964	Foreign Electronics (52) .....	1982	Natural Gas Utility (41) .....	543	*Retail (Softlines) (63) .....	2199
Biotechnology (40) .....	825	Funeral Services (34) .....	1831	Natural Gas (Div.) (13) .....	522	*Retail Store (57) .....	2132
Brokers & Exchanges (47) .....	1790	Furn/Home Furnishings (96) .....	1146	Newspaper (-) .....	2385	Retail/Wholesale Food (79) .....	1943
Building Materials (89) .....	1101	Healthcare Information (11) .....	817	Office Equip/Supplies (20) .....	1413	Semiconductor (75) .....	1349
Cable TV (73) .....	1017	Heavy Truck & Equip (55) .....	152	Oil/Gas Distribution (8) .....	602	Semiconductor Equip (67) .....	1383
Chemical (Basic) (4) .....	1594	Homebuilding (90) .....	1122	Oilfield Svcs/Equip. (5) .....	2415	*Shoe (81) .....	2153
Chemical (Diversified) (88) .....	2441	Hotel/Gaming (80) .....	2355	Packaging & Container (82) .....	1172	Steel (7) .....	738
Chemical (Specialty) (62) .....	555	Household Products (28) .....	1187	Paper/Forest Products (42) .....	1162	Telecom. Equipment (37) .....	939
Computers/Peripherals (83) .....	1394	Human Resources (78) .....	1634	Petroleum (Integrated) (18) .....	1646, 501	Telecom. Services (71) .....	919
Computer Software (14) .....	2579	Industrial Services (69) .....	379	Petroleum (Producing) (9) .....	2401	Telecom. Utility (30) .....	1025
Diversified Co. (36) .....	1736	Information Services (74) .....	437	Pharmacy Services (84) .....	964	Thrift (29) .....	1501
Drug (45) .....	1605	IT Services (64) .....	2601	Pipeline MLPs (6) .....	613	Tobacco (15) .....	1990
E-Commerce (65) .....	1810	Insurance (Life) (22) .....	1551	Power (26) .....	1214	Toiletries/Cosmetics (21) .....	1006
Educational Services (25) .....	1997	Insurance (Prop/Cas.) (46) .....	753	Precious Metals (3) .....	1837, 1563	Trucking (94) .....	318
Electrical Equipment (27) .....	1301	Internet (32) .....	2622	Precision Instrument (23) .....	112	Water Utility (43) .....	1780
Electric Util. (Central) (16) .....	901	Investment Banking (10) .....	1802	Public/Private Equity (1) .....	2649	Wireless Networking (77) .....	585
Electric Utility (East) (12) .....	140	Investment Co. (-) .....	1202	Publishing (54) .....	2376		

\*Reviewed in this week's issue.

In three parts: This is Part 1, the Summary & Index. Part 2 is Selection & Opinion. Part 3 is Ratings & Reports. Volume LXXII, No. 11.  
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# Index to Stocks

Prices quoted are as of October 18, 2016.  
All shares are traded on the New York Stock Exchange except where noted.

**PAGE NUMBERS**

Bold type refers to Ratings and Reports

NAME OF STOCK	Ticker Symbol	RANKS										Industry Rank			LATEST RESULTS			Do Options Trade?	
		Recent Price		Safety		Technical		3-5 year Target Price Range and % appreciation potential	Current P/E Ratio	% Est'd Yield next 12 mos.	Est'd Earnings 12 mos. to 3-31-17	(f) Est'd Div'd next 12 mos.	Qtr. Ended	Earnings Per sh.	Year Ago	Qtr. Ended	Latest Div'd		Year Ago
		Timeliness	Beta	Timeliness	Beta	Timeliness	Beta												
1702 <b>AAON, Inc.</b> (NDQ)	AAON	29.20	▼4	3	3	1.25	35- 50 (20- 70%)	28.6	0.9	1.02	.26	68	6/30	.27	.20	9/30	.11	.11	YES
702 AAR Corp.	AIR	31.77	2	3	3	1.25	30- 45 (N- 40%)	23.9	0.9	1.33	.30	59	8/31	.29	.23	12/31	.075	.075	YES
1965 AB InBev ADR	BUD	127.96	-	1	-	.95	130- 155 (N- 20%)	39.1	3.4	3.27	4.40	38	6/30	.09	1.16	9/30	NIL	NIL	YES
1737 ABB Ltd. ADR	ABB	22.45	1	3	2	1.20	30- 40 (35- 80%)	23.1	3.3	.97	.74	36	6/30	.19	.26	9/30	.73	.18	YES
380 ABM Industries Inc.	ABM	38.12	3	3	1	.80	40- 65 (5- 70%)	23.4	1.7	1.63	.66	69	7/31	.54	.45	12/31	.165	.16	YES
1414 ACCO Brands	ACCO	9.21	3	4	1	1.25	11- 19 (20-105%)	10.5	NIL	.88	NIL	20	6/30	.25	.24	9/30	NIL	NIL	YES
2602 ACI Worldwide (NDQ)	ACIW	19.73	5	3	5	1.10	25- 35 (25- 75%)	43.8	NIL	.45	NIL	64	6/30	d.15	.23	9/30	NIL	NIL	YES
1215 AES Corp.	AES	11.87	2	3	2	1.15	16- 25 (35-110%)	74.2	3.7	.16	.44	26	6/30	d.73	.10	12/31	◆.11	.21	YES
153 AGCO Corp.	AGCO	52.21	3	3	5	1.25	45- 65 (N- 25%)	20.2	1.0	2.59	.52	55	6/30	1.02	1.25	9/30	.13	.12	YES
2386 A.H. Belo	AHC	7.15	-	4	-	.90	7- 11 (N- 55%)	25.5	4.5	.28	.32	-	6/30	.03	d.03	12/31	.08	.08	YES
739 AK Steel Holding	AKS	4.63	3	5	4	1.90	7- 13 (50-180%)	NMF	NIL	d.07	NIL	7	6/30	.08	d.36	9/30	NIL	NIL	YES
2302 AMC Entertainment Hldgs.	AMC	31.60	▼4	3	3	1.10	35- 50 (10- 60%)	31.9	2.5	.99	.80	85	6/30	.24	.45	9/30	.20	.20	YES
2330 AMC Networks (NDQ)	AMCX	49.26	5	3	4	.95	115- 175 (135-255%)	8.0	NIL	6.16	NIL	76	6/30	1.05	1.14	9/30	NIL	NIL	YES
1635 AMN Healthcare	AHS	34.13	4	3	3	1.15	40- 60 (15- 75%)	15.9	NIL	2.15	NIL	78	6/30	.53	.32	9/30	NIL	NIL	YES
1564 ASA Gold & Precious	ASA	13.58	-	3	1	.95	16- 25 (20- 85%)	NMF	0.3	d.02	.04	3	8/31	15.36(q)	8.89(q)	9/30	NIL	NIL	YES
920 AT&T Inc.	T	39.36	3	1	3	.70	45- 55 (15- 40%)	13.7	5.0	2.88	1.95	71	6/30	.72	.69	9/30	.48	.47	YES
921 ATN International (NDQ)	ATNI	65.72	3	3	5	.90	75- 110 (15- 65%)	27.8	2.1	2.36	1.36	71	6/30	.47	.59	12/31	▲.34	.32	YES
1319 AVX Corp.	AVX	13.75	2	3	3	1.05	12- 18 (N- 30%)	18.3	3.2	.75	.44	56	6/30	.19	.21	9/30	.105	.105	YES
2133 Aaron's Inc.	AAN	23.42	3	3	3	1.05	35- 55 (50-135%)	9.8	0.4	2.39	.10	57	6/30	.59	.61	12/31	.025	.023	YES
2454 197 Abaxis, Inc. (NDQ)	ABAX	52.61	4	3	3	1.05	55- 80 (5- 50%)	39.0	0.9	1.35	.48	39	6/30	.30	.31	9/30	.12	.11	YES
198 Abbott Labs.	ABT	41.17	2	1	4	1.10	50- 60 (20- 45%)	18.4	2.5	2.24	1.04	39	9/30	◆.59	.54	12/31	.26	.24	YES
1606 AbbVie Inc.	ABBV	61.55	4	3	2	1.10	95- 145 (55-135%)	12.3	3.7	5.00	2.28	45	6/30	1.26	1.08	12/31	.57	.51	YES
848 2200 Abercrombie & Fitch	ANF	15.39	3	3	3	1.30	35- 50 (125-225%)	22.3	5.4	▲.69	.83	63	7/31	d.19	d.01	9/30	.20	.20	YES
423 Aberdeen Australia Fd. (ASE)	IAF	5.55	-	3	2	1.05	9- 13 (60-135%)	NMF	4.5	NMF	.25	-	7/31	6.60(q)	6.96(q)	9/30	.038	.067	YES
1203 Aberdeen Asia-Pac. Fd.(ASE)	FAX	4.90	-	4	2	.70	4- 7 (N- 45%)	NMF	8.6	NMF	.42	-	4/30	5.68(q)	6.14(q)	9/30	.105	.105	YES
424 Aberdeen Japan Equity	JEQ	8.06	-	3	3	.90	10- 16 (25-100%)	NMF	0.6	NMF	.05	-	4/30	8.55(q)	9.08(q)	9/30	NIL	NIL	YES
171 ABIOMED Inc. (NDQ)	ABMD	129.07	3	3	4	1.10	110- 160 (N- 25%)	NMF	NIL	1.20	NIL	48	6/30	.29	.20	9/30	NIL	NIL	YES
2603 Accenture Plc	ACN	117.53	3	1	3	1.00	100- 120 (N- N%)	21.0	2.1	5.59	2.42	64	8/31	1.31	1.15	12/31	▲1.21	1.10	YES
2006 Activision Blizzard (NDQ)	ATVI	44.18	2	3	3	1.00	30- 40 (N- N%)	53.9	0.6	.82	.28	44	6/30	.17	.29	9/30	NIL	NIL	YES
154 Actuant Corp.	ATU	22.26	2	3	4	1.35	25- 40 (10- 80%)	18.0	0.2	1.24	.04	55	8/31	.30	.37	12/31	.04	.04	YES
1302 Acuity Brands	AYI	246.48	3	3	2	1.30	180- 270 (N- 10%)	29.7	0.2	8.30	.52	27	8/31	2.21	1.63	9/30	.13	.13	YES
1204 Adams Divers. Equity Fd	ADX	12.97	-	2	3	1.00	20- 25 (55- 95%)	NMF	1.5	NMF	.20	-	6/30	15.10(q)	16.19(q)	9/30	.05	.05	YES
1424 2580 Adobe Systems (NDQ)	ADBE	108.42	2	3	3	1.15	115- 175 (5- 60%)	51.6	NIL	2.10	NIL	14	8/31	.54	.34	9/30	NIL	NIL	YES
940 ADTRAN, Inc. (NDQ)	ADTN	18.60	1	3	3	1.00	25- 40 (35-115%)	27.4	1.9	.68	.36	37	9/30	◆.26	.14	12/31	◆.09	.09	YES
2119 Advance Auto Parts	AAP	142.99	5	2	3	.90	160- 215 (10- 50%)	19.3	0.2	▼7.39	.24	95	6/30	1.90	2.27	12/31	.06	.06	YES
2455 1350 Advanced Energy (NDQ)	AEIS	46.83	4	3	3	1.20	50- 75 (5- 60%)	16.4	NIL	2.86	NIL	75	6/30	.73	.43	9/30	NIL	NIL	YES
1351 Advanced Micro Dev. (NDQ)	AMD	6.73	3	5	3	1.50	4- 8 (N- 20%)	NMF	NIL	d.20	NIL	75	6/30	d.05	d.17	9/30	NIL	NIL	YES
438 Advisory Board (NDQ)	ABCO	43.52	1	3	4	.75	45- 70 (5- 60%)	45.3	NIL	.96	NIL	74	6/30	.18	.20	9/30	NIL	NIL	YES
1234 AECOM	ACM	27.94	3	3	2	1.40	40- 60 (45-115%)	8.6	NIL	3.25	NIL	35	6/30	.81	.74	9/30	NIL	NIL	YES
1102 Aegion Corp. (NDQ)	AEGN	18.77	3	3	5	1.50	25- 40 (35-115%)	15.3	NIL	1.23	NIL	89	6/30	.23	.35	9/30	NIL	NIL	YES
1552 AEGON	AEG	4.15	1	3	3	1.45	6- 9 (45-115%)	8.8	7.0	.47	.29	22	6/30	d.22	.19	9/30	.147	.144	YES
1738 Aerojet Rocketdyne	AJRD	17.25	2	3	2	1.10	30- 40 (75-130%)	20.5	NIL	.84	NIL	36	6/30	.09	NA	9/30	NIL	NIL	YES
703 AeroVironment (NDQ)	AVAV	22.51	▲1	3	3	1.05	30- 45 (35-100%)	NMF	NIL	.10	NIL	59	7/31	d.51	d.30	9/30	NIL	NIL	YES
793 Aetna Inc.	AET	111.43	4	2	2	.90	135- 180 (20- 60%)	13.6	0.9	8.18	1.00	70	6/30	2.21	2.05	9/30	.25	.25	YES
2533 Affiliated Managers	AMG	141.39	4	3	3	1.40	210- 310 (50-120%)	15.4	NIL	9.16	NIL	58	6/30	1.97	2.31	9/30	NIL	NIL	YES
1553 Aflac Inc.	AFL	70.30	3	3	2	1.10	70- 105 (N- 50%)	10.3	2.4	6.84	1.72	22	6/30	1.71	1.50	9/30	.41	.39	YES
113 Agilent Technologies	A	45.44	2	3	3	1.25	60- 85 (30- 85%)	22.1	1.0	2.06	.46	23	7/31	.49	.44	12/31	.115	.10	YES
1565 Agnico Eagle Mines	AEM	48.01	2	3	2	.75	50- 75 (5- 55%)	87.3	0.8	.55	.40	3	6/30	.10	.11	9/30	▲.10	.08	YES
1246 1595 Agrum, Inc.	AGU	89.96	-	3	-	1.10	110- 165 (20- 85%)	17.0	4.1	5.28	3.65	4	6/30	4.08	4.71	12/31	.875	.875	YES
2442 Air Products & Chem.	APD	133.82	-	1	-	1.05	180- 220 (35- 65%)	17.1	2.6	7.82	3.52	88	6/30	1.92	1.65	12/31	.86	.81	YES
2534 Aircastle Ltd.	AYR	19.72	3	3	4	1.20	25- 35 (25- 75%)	10.2	4.9	1.94	.96	58	6/30	.31	.51	9/30	.24	.22	YES
2454 1811 Akamai Technologies (NDQ)	AKAM	55.92	3	3	5	1.35	100- 150 (80-170%)	28.2	NIL	1.98	NIL	65	6/30	.42	.37	9/30	NIL	NIL	YES
302 Alaska Air Group	ALK	72.11	5	3	5	1.15	80- 120 (10- 65%)	10.2	1.5	7.04	1.10	92	6/30	2.12	1.76	9/30	.275	.20	YES
1703 Albany Int'l 'A'	AIN	41.55	3	3	3	1.25	45- 70 (10- 70%)	20.4	1.6	2.04	.68	68	6/30	4.48	d.07	12/31	.17	.17	YES
1607 Albany Molecular (NDQ)	AMRI	16.44	1	4	5	1.20	20- 30 (20- 80%)	NMF	NIL	.09	NIL	45	6/30	d.61	.07	9/30	NIL	NIL	YES

★★ Supplementary Report in this week's issue.

▲ Arrow indicates the direction of a change. When it appears with the Latest Dividend, the arrow signals that a change in the regular payment rate has occurred in the latest quarter.

For Timeliness, 3-5 year Target Price Range, or Estimated Earnings 12 months to 3-31-17, the arrow indicates a change since the preceding week. When a diamond ◆ (indicating a new figure) appears alongside the latest quarterly earnings

results, the rank change probably was primarily caused by the earnings report. In other cases, the change is due to the dynamics of the ranking system and could simply be the result of the improvement or weakening of other stocks.

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RANKS

Industry Rank

Do Options Trade?

NAME OF STOCK	Ticker Symbol	Recent Price			RANKS			3-5 year Target Price Range and % appreciation potential	Current P/E Ratio	% Est'd Yield next 12 mos.	Est'd Earnings 12 mos. to 3-31-17	(f) Est'd Div'd next 12 mos.	LATEST RESULTS					Do Options Trade?
		Timeliness	Safety	Technical	Beta	Qtr. Ended	Earnings Per sh.						Year Ago	Qtr. Ended	Latest Div'd	Year Ago		
																	Qtr. Ended	
2443 Albarine Corp.	ALB	81.66	3 3 3	1.35	80-120	(N-45%)	20.3	1.5	4.03	1.22	88	6/30	d27.8	.46	9/30	.305	.29	YES
2030 1581 Alcoa Inc.	AA	26.51	- 3 -	1.50	40-60	(50-125%)	17.3	1.4	1.53	.36	2	9/30	.32	.21	12/31	.09	.09	YES
2455 199 Alere Inc.	ALR	42.40	- 3 -	1.15	45-70	(5-65%)	18.1	NIL	2.34	NIL	39	6/30	.42	.53	9/30	NIL	NIL	YES
1608 Alexion Pharm.	(NDQ) ALXN	121.34	2 3 4	1.10	185-275	(50-125%)	27.3	NIL	4.44	NIL	45	6/30	.51	.83	9/30	NIL	NIL	YES
2623 Alibaba Group Hldg Ltd.	BABA	103.34	- 3 -	NMF	120-180	(15-75%)	41.3	NIL	2.50	NIL	32	6/30	.44	.39	9/30	NIL	NIL	YES
200 Align Techn.	(NDQ) ALGN	90.41	4 3 3	1.10	90-140	(N-55%)	37.4	NIL	2.42	NIL	39	6/30	.62	.39	9/30	NIL	NIL	YES
1944 Alimentation Couche-Tard(TSE)	ATDB.TO	67.13	5 3 3	.60	90-130	(35-95%)	21.7	0.5	3.10	.35	79	7/31	.74	.67	9/30	1.155	.11	YES
754 Alleghany Corp.	Y	524.98	2 1 3	.80	515-625	(N-20%)	20.3	NIL	25.90	NIL	46	6/30	1.50	6.01	9/30	NIL	NIL	YES
1582 Allegheny Techn.	ATI	16.92	1 4 4	1.85	19-30	(10-75%)	NMF	1.9	d.16	.32	2	6/30	d.21	d.15	9/30	.08	.18	YES
303 Allegiant Travel	(NDQ) ALGT	154.45	4 3 5	.75	160-245	(5-60%)	12.4	1.8	12.46	2.80	92	6/30	3.68	3.19	9/30	.70	.30	YES
1320 Allegion plc	ALLE	67.90	4 3 3	1.10	75-115	(10-70%)	19.5	0.7	3.49	.48	56	6/30	.99	.71	9/30	.12	.10	YES
1609 Allergan plc	AGN	227.94	▲ 4 3 4	.90	310-470	(35-105%)	15.3	NIL	14.86	NIL	45	6/30	3.35	4.41	9/30	NIL	NIL	YES
902 ALLETE	ALE	58.99	3 2 2	.75	50-65	(N-10%)	18.6	3.6	3.17	2.13	16	6/30	.50	.46	9/30	.52	.505	YES
439 Alliance Data Sys.	ADS	211.07	4 3 4	1.05	270-410	(30-95%)	12.2	NIL	17.26	NIL	74	6/30	3.68	3.32	9/30	NIL	NIL	YES
1583 Alliance Resource	(NDQ) ARLP	23.55	3 3 5	1.15	35-55	(50-135%)	8.1	7.4	2.89	1.75	2	6/30	.82	.76	9/30	438	.675	YES
2535 AllianceBernstein Hldg.	AB	21.80	3 3 3	1.10	30-45	(40-105%)	11.5	8.9	1.90	1.93	58	6/30	.40	.49	9/30	.40	.48	YES
903 Alliant Energy	LNT	37.38	2 2 2	.75	30-40	(N-5%)	19.2	3.2	1.95	1.18	16	6/30	.37	.30	12/31	.294	.275	YES
975 Allison Transmission	ALSN	27.65	3 3 2	1.05	30-45	(10-65%)	24.3	2.2	1.14	.61	93	6/30	.36	.30	9/30	.15	.15	YES
818 Allscripts Healthcare	(NDQ) MDRX	13.24	3 3 4	1.05	17-25	(30-90%)	21.7	NIL	.61	NIL	11	6/30	.14	.12	9/30	NIL	NIL	YES
755 Allstate Corp.	ALL	69.29	3 1 3	.85	95-115	(35-65%)	13.4	1.9	5.18	1.32	46	6/30	.62	.63	12/31	.33	.30	YES
1837 826 Alnylam Pharm.	(NDQ) ALNY	38.07	2 4 4	1.35	65-105	(70-175%)	NMF	NIL	d4.74	NIL	40	6/30	d1.05	d.85	9/30	NIL	NIL	YES
2624 Alphabet Inc.	(NDQ) GOOG	795.26	3 2 3	1.00	885-1200	(10-50%)	28.0	NIL	28.38	NIL	32	6/30	7.00	4.93	9/30	NIL	NIL	YES
1704 Altra Industrial Motion	(NDQ) AIMC	29.00	3 3 3	1.40	30-40	(5-40%)	21.2	2.1	1.37	.60	68	6/30	.36	.37	12/31	.15	.15	YES
1991 Altria Group	MO	62.66	▼ 3 2 3	.60	60-80	(N-30%)	20.3	3.9	3.09	2.44	15	6/30	.84	.74	12/31	▲.61	.565	YES
2625 Amazon.com	(NDQ) AMZN	817.65	▲ 4 3 3	1.10	600-900	(N-10%)	NMF	NIL	5.78	NIL	32	6/30	1.78	.19	9/30	NIL	NIL	YES
2604 Amdocs Ltd.	(NDQ) DOX	59.61	2 1 3	.85	60-70	(N-15%)	20.9	1.3	2.85	.78	64	6/30	.70	.69	9/30	.195	.17	YES
2658 794 Amedysys, Inc.	(NDQ) AMED	46.12	2 4 2	1.30	35-60	(N-30%)	26.1	NIL	1.77	NIL	70	6/30	.42	.43	9/30	NIL	NIL	YES
904 Ameren Corp.	AEE	48.91	3 2 2	.70	40-55	(N-10%)	18.7	3.6	2.62	1.76	16	6/30	.61	.40	12/31	▲.44	.425	YES
922 America Movil	AMX	11.91	2 3 5	1.10	15-25	(25-110%)	13.7	2.5	.87	.30	71	6/30	.13	.27	9/30	.151	.164	YES
304 American Airlines	(NDQ) AAL	39.35	4 3 4	1.30	50-75	(25-90%)	7.3	1.0	5.36	.40	92	6/30	1.68	2.41	9/30	.10	.10	YES
976 Amer. Axle	AXL	17.47	4 4 4	1.45	25-40	(45-130%)	5.4	NIL	3.22	NIL	93	6/30	.90	.75	9/30	NIL	NIL	YES
2650 Amer. Capital, Ltd.	(NDQ) ACAS	16.91	- 4 -	1.15	15-25	(N-50%)	10.6	NIL	1.59	NIL	1	6/30	.47	.22	9/30	NIL	NIL	YES
2201 Amer. Eagle Outfitters	AEO	17.14	2 3 1	.90	20-30	(15-75%)	12.9	2.9	1.33	.50	63	7/31	.23	.17	12/31	1.125	1.125	YES
905 Amer. Elec. Power	AEP	63.37	2 2 3	.65	55-75	(N-20%)	15.5	3.7	4.08	2.36	16	6/30	1.07	.88	9/30	.56	.53	YES
★ 2536 Amer. Express	AXP	60.08	4 1 3	1.05	80-95	(35-65%)	10.8	2.1	5.55	1.28	58	6/30	2.10	1.42	12/31	▲.32	.29	YES
756 Amer. Financial Group	AFG	75.97	3 2 3	.90	75-100	(N-30%)	13.2	1.6	5.74	1.25	46	6/30	1.28	1.28	12/31	▲.313	.28	YES
2537 Amer. Int'l Group	AIG	60.49	3 3 3	1.15	65-95	(5-55%)	12.7	2.1	4.75	1.28	58	6/30	.98	1.39	9/30	.32	.28	YES
339 American Railcar	(NDQ) ARII	39.05	5 3 3	1.40	30-50	(N-30%)	10.0	4.1	3.90	1.60	91	6/30	1.02	1.54	9/30	.40	.40	YES
1781 Amer. States Water	AWR	38.14	3 2 3	.70	40-50	(5-30%)	22.4	2.5	1.70	.94	43	6/30	.45	.41	9/30	224	224	YES
586 Amer. Tower 'A'	AMT	114.15	3 2 3	.90	130-175	(15-55%)	43.9	2.1	2.60	2.40	77	6/30	.37	.30	12/31	▲.55	.46	YES
556 Amer. Vanguard Corp.	AVD	15.55	3 3 2	.95	13-19	(N-20%)	31.1	0.3	.50	.04	62	6/30	.11	.03	12/31	.01	NIL	YES
1782 Amer. Water Works	AWK	72.42	4 3 3	.65	60-90	(N-25%)	25.1	2.2	2.89	1.57	43	6/30	.77	.68	9/30	.375	.34	YES
1103 Amer. Woodmark	(NDQ) AMWD	77.60	4 3 3	1.20	80-120	(5-55%)	17.6	NIL	4.40	NIL	89	7/31	1.32	.92	9/30	NIL	NIL	YES
2538 Ameriprise Fin'l	AMP	97.13	4 3 4	1.30	145-220	(50-125%)	10.5	3.1	9.26	3.00	58	6/30	1.97	2.23	9/30	.75	.67	YES
201 AmerisourceBergen	ABC	81.09	4 1 4	.80	110-130	(35-60%)	14.3	1.7	5.67	1.36	39	6/30	1.37	1.20	9/30	.34	.29	YES
1739 Ametek, Inc.	AME	45.65	4 2 4	1.10	50-70	(10-55%)	18.9	0.8	2.41	.36	36	6/30	.59	.64	9/30	.09	.09	YES
827 Amgen	(NDQ) AMGN	162.80	4 1 2	.95	205-250	(25-55%)	14.3	2.6	11.38	4.30	40	6/30	2.84	2.57	12/31	◆1.00	.79	YES
1384 Amkor Technology	(NDQ) AMKR	9.39	2 5 3	1.35	9-16	(N-70%)	20.9	NIL	.45	NIL	67	6/30	.02	.04	9/30	NIL	NIL	YES
1321 Amphenol Corp.	APH	63.21	4 3 3	1.05	50-70	(N-10%)	23.8	1.0	2.66	.64	56	9/30	◆.73	.65	3/31	▲.16	.14	YES
757 AmTrust Financial Svcs.(NDQ)	AFSI	27.33	3 3 5	.85	30-45	(10-65%)	8.8	2.5	3.09	.68	46	6/30	.78	.42	12/31	▲.17	.15	YES
2402 Anadarko Petroleum	APC	62.97	2 3 5	1.60	65-95	(5-50%)	NMF	0.3	d2.72	.20	9	6/30	d1.36	.12	9/30	.05	.27	YES
2459 1352 Analog Devices	(NDQ) ADI	62.14	3 2 3	1.10	65-85	(5-35%)	19.4	2.7	3.20	1.68	75	7/31	.82	.77	9/30	.42	.40	YES
114 Analogic Corp.	(NDQ) ALOG	83.05	3 3 1	.90	90-130	(10-55%)	27.9	0.5	2.98	.40	23	7/31	.70	.86	12/31	.10	.10	YES
172 AngioDynamics	(NDQ) ANGO	16.93	▼ 2 3 3	.90	15-25	(N-50%)	NMF	NIL	d1.08	NIL	48	8/31	.04	d.02	9/30	NIL	NIL	YES
1566 AngloGold Ashanti ADS	AU	14.13	2 4 1	.80	20-35	(40-150%)	22.8	NIL	.62	NIL	3	6/30	.13(p)	d.03	9/30	NIL	NIL	YES
1322 Anixter Int'l	AXE	60.90	1 3 4	1.20	75-110	(25-80%)	14.1	NIL	4.33	NIL	56	6/30	1.12	1.14	9/30	NIL	NIL	YES
1512 Annaly Capital Mgmt.	NLY	10.10	2 3 3	.60	12-18	(20-80%)	8.6	11.9	1.17	1.20	50	6/30	.29	.41	12/31	.264	.30	YES
2581 ANSYS, Inc.	(NDQ) ANSS	91.39	3 2 2	1.10	90-125	(N-35%)	24.5	NIL	3.73	NIL	14	6/30	.93	.85	9/30	NIL	NIL	YES
523 Antero Resources Corp.	AR	27.44	▲ 2 4 4	1.35	35-55	(30-100%)	50.8	NIL	.54	NIL	13	6/30	.14	.06	9/30	NIL	NIL	YES
795 Anthem, Inc.	ANTM	123.15	3 2 4	.80	140-185	(15-50%)	12.0	2.1	10.27	2.60	70	6/30	2.91	3.13	9/30	.65	.625	YES
2539 Aon plc	AON	110.59	5 1 2	.95	140-175	(25-60%)	19.5	1.2	5.67	1.32	58	6/30	1.01	.62	12/31	◆.33	.30	YES
1036 2403 Apache Corp.	APA	6																



PAGE NUMBERS

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RANKS

Industry Rank

Do Options Trade?

NAME OF STOCK	Ticker Symbol	Recent Price			Safety			Technical			3-5 year Target Price Range and % appreciation potential	Current P/E Ratio	% Est'd Yield next 12 mos.	Est'd Earnings 12 mos. to 3-31-17	(f) Est'd Div'd next 12 mos.	LATEST RESULTS					
		Timeliness	Safety	Beta	Timeliness	Safety	Beta	Qtr. Ended	Earnings Per sh.	Year Ago						Qtr. Ended	Latest Div'd	Year Ago			
																			Qtr. Ended	Latest Div'd	
2120 Asbury Automotive	ABG	54.70	4	3	4	1.20	95-	140	(75-155%)	8.8	NIL	6.25	NIL	95	6/30	1.65	1.52	9/30	NIL	NIL	YES
1424 2202 Ascena Retail Group (NDQ)	ASNA	5.00	3	3	2	1.10	18-	25	(260-400%)	12.8	NIL	▼.39	NIL	63	7/31	0.07	d1.98	9/30	NIL	NIL	YES
557 Ashland Global Hldgs. Ashland Inc.	ASH	113.96	4	3	1	1.20	110-	170	(N- 50%)	15.8	1.4	7.21	1.59	62	6/30	1.95	1.91	9/30	.39	.39	YES
NAME CHANGED TO ASHLAND GLOBAL HLDGS.																					
2020 Aspen Insurance Hldgs.	AHL	49.58	3	2	5	.85	45-	60	(N- 20%)	11.7	1.8	4.22	.88	33	6/30	.89	.62	9/30	.22	.21	YES
775 Assoc. Banc-Corp	ASB	19.35	3	3	2	1.15	25-	35	(30- 80%)	15.1	2.3	1.28	.44	19	6/30	.31	.31	9/30	.11	.10	YES
2540 Assurant Inc.	AIZ	91.30	4	2	3	.90	55-	80	(N- N%)	12.2	2.2	7.51	2.00	58	6/30	2.70	.47	9/30	.50	.30	YES
2021 Assured Guaranty	AGO	29.66	3	3	3	1.50	30-	45	(N- 50%)	10.1	1.9	2.95	.55	33	6/30	1.03	1.96	9/30	.13	.12	YES
155 Astec Inds. (NDQ)	ASTE	59.10	2	3	3	1.20	50-	75	(N- 25%)	24.5	0.7	2.41	.40	55	6/30	.79	.51	9/30	.10	.10	YES
1502 Astoria Financial	AF	14.23	-	3	-	1.10	14-	20	(N- 40%)	24.5	1.1	.58	.16	29	6/30	.16	.17	9/30	.04	.04	YES
1610 AstraZeneca PLC (ADS)	AZN	31.27	3	2	1	.90	35-	45	(10- 45%)	27.4	4.5	1.14	1.40	45	6/30	NIL	.28	9/30	.45	.45	YES
704 Astronics Corp.(*) (NDQ)	ATRO	36.51	4	3	4	1.15	45-	65	(25- 80%)	18.4	NIL	1.98	NIL	59	6/30	.50	.58	9/30	NIL	NIL	YES
819 athenahealth (NDQ)	ATHN	123.54	3	3	5	1.15	155-	235	(25- 90%)	NMF	NIL	.24	NIL	11	6/30	d.05	.24	9/30	NIL	NIL	YES
305 Atlas Air Worldwide (NDQ)	AAWW	42.00	▲	1	3	1.40	50-	80	(20- 90%)	11.3	NIL	3.73	NIL	92	6/30	d.28	1.13	9/30	NIL	NIL	YES
544 Atmos Energy	ATO	72.17	▲	1	3	.75	90-	110	(25- 50%)	20.6	2.5	3.50	1.80	41	6/30	.69	.55	9/30	.42	.39	YES
2582 Autodesk, Inc. (NDQ)	ADSK	70.13	3	3	3	1.35	40-	60	(N- N%)	NMF	NIL	d.68	NIL	14	7/31	d.44	d1.18	9/30	NIL	NIL	YES
977 Autoliv, Inc.	ALV	99.15	3	3	3	1.20	105-	155	(5- 55%)	14.9	2.4	6.64	2.38	93	6/30	1.68	1.55	12/31	.58	.56	YES
2605 Automatic Data Proc. (NDQ)	ADP	87.38	2	1	2	.95	110-	130	(25- 50%)	24.8	2.6	3.52	2.27	64	6/30	.62	.55	12/31	.53	.49	YES
2121 AutoNation, Inc.	AN	47.90	4	3	4	1.00	65-	95	(35-100%)	10.8	NIL	4.45	NIL	95	6/30	1.08	1.00	9/30	NIL	NIL	YES
2122 AutoZone Inc.	AZO	753.80	4	3	3	.70	635-	955	(N- 25%)	17.7	NIL	42.62	NIL	95	8/31	14.30	12.75	9/30	NIL	NIL	YES
1514 AvalonBay Communities	AVB	168.77	4	2	3	.75	195-	265	(15- 55%)	22.6	3.4	7.47	5.73	50	6/30	1.44	1.29	12/31	1.35	1.25	YES
558 Avery Dennison	AVY	76.44	3	3	3	1.05	70-	100	(N- 30%)	19.1	2.2	4.01	1.70	62	6/30	1.09	.91	9/30	.41	.37	YES
457 1324 Avigilon Corp. (TSE)	AVO.TO	8.34	4	3	3	1.00	25-	35	(200-320%)	12.3	NIL	.68	NIL	56	6/30	.08	.15	9/30	NIL	NIL	YES
2163 Avis Budget Group (NDQ)	CAR	32.05	5	4	3	1.60	45-	80	(40-150%)	9.2	NIL	3.48	NIL	61	6/30	.63	.84	9/30	NIL	NIL	YES
2225 Avista Corp.	AVA	40.37	3	2	2	.70	30-	45	(N- 10%)	19.6	3.5	2.06	1.41	31	6/30	.43	.40	9/30	.343	.33	YES
1325 Avnet, Inc.	AVT	41.83	3	3	4	1.20	45-	65	(10- 55%)	10.4	1.6	4.01	.68	56	6/30	.86	1.16	9/30	.17	.17	YES
1007 Avon Products	AVP	6.62	1	4	4	1.50	9-	15	(35-125%)	25.5	NIL	.26	NIL	21	6/30	.06	.06	9/30	NIL	.06	YES
559 Axalta Coating	AXTA	26.28	4	3	2	1.05	35-	55	(35-110%)	22.3	NIL	1.18	NIL	62	6/30	.20	d.11	9/30	NIL	NIL	YES
843 Axiall Corp.	AXLL						SEE FINAL SUPPLEMENT - PAGE 843														
2022 AXIS Capital Hldgs.	AXS	56.72	3	2	3	.75	40-	55	(N- N%)	15.2	2.5	3.73	1.40	33	6/30	.51	.93	12/31	.35	.29	YES
2658 1903 B&G Foods	BGS	48.90	4	3	3	.70	35-	55	(N- 10%)	24.2	3.4	2.02	1.68	49	6/30	.48	.33	12/31	.42	.35	YES
2502 BB&T Corp.	BBT	37.89	3	2	2	1.05	40-	55	(5- 45%)	13.5	3.2	2.81	1.20	51	9/30	♦.73	.64	9/30	.30	.27	YES
1026 BCE Inc.	BCE	46.17	2	3	2	.70	40-	60	(N- 30%)	20.3	4.5	2.27	2.10	30	6/30	.69	.90	12/31	.512	.484	YES
705 B/E Aerospace (NDQ)	BEAV	51.06	-	3	-	NMF	65-	100	(25- 95%)	15.0	1.7	3.40	.87	59	6/30	.84	.75	9/30	.21	.19	YES
1791 BGC Partners (NDQ)	BGCP	8.85	3	3	3	1.15	12-	18	(35-105%)	9.1	7.2	.97	.64	47	6/30	.19	.18	9/30	.16	.14	YES
1584 BHP Billiton Ltd. ADR	BHP	34.49	1	3	5	1.40	30-	45	(N- 30%)	NMF	1.7	.22	.60(h)	2	6/30	d.28(p)	d.29(p)	9/30	.28	1.24	YES
351 BJ's Restaurants (NDQ)	BJRI	35.42	4	3	4	.90	95-	145	(170-310%)	18.4	NIL	1.93	NIL	87	6/30	.56	.47	9/30	NIL	NIL	YES
776 BOK Financial (NDQ)	BOKF	69.83	2	3	2	1.00	70-	105	(N- 50%)	15.7	2.5	4.46	1.72	19	6/30	1.00	1.15	9/30	.43	.42	YES
502 BP PLC ADR	BP	35.98	3	3	4	1.20	50-	75	(40-110%)	66.6	6.7	5.4	2.40	18	6/30	d.46	d1.91	9/30	.60	.60	YES
1027 BT Group ADR(g)	BT	23.85	3	3	2	1.00	30-	50	(25-110%)	10.6	4.2	2.25	1.00	30	6/30	.45	.48	9/30	.643	.653	YES
1216 BWX Technologies	BWXT	38.52	-	3	-	NMF	30-	50	(N- 30%)	23.5	0.9	1.64	.36	26	6/30	.55	NIL	9/30	.09	.06	YES
1235 Babcock & Wilcox Enter.	BW	15.64	-	3	-	NMF	25-	35	(60-125%)	20.9	NIL	.75	NIL	35	6/30	d.20	.27	9/30	NIL	NIL	YES
115 Badger Meter	BMI	30.70	-	3	-	1.00	35-	50	(15- 65%)	26.0	1.5	1.18	.46	23	9/30	♦.30	.29	9/30	▲.115	.10	YES
2626 Baidu, Inc. (NDQ)	BIDU	175.65	3	3	3	1.25	140-	215	(N- 20%)	29.2	NIL	6.01	NIL	32	6/30	.99	1.64	9/30	NIL	NIL	YES
2416 Baker Hughes	BHI	51.60	1	3	4	1.40	50-	75	(N- 45%)	NMF	1.3	d1.63	.68	5	6/30	d.90	d.43	9/30	.17	.17	YES
560 Balchem Corp. (NDQ)	BCPC	75.96	3	3	4	1.00	65-	100	(N- 30%)	35.7	0.4	2.13	.34	62	6/30	.44	.47	9/30	NIL	NIL	YES
1174 Ball Corp.	BLL	80.92	▼	4	2	3	60-	80	(N- N%)	16.2	0.6	5.00	.52	82	6/30	2.54	1.13	9/30	.13	.13	YES
2503 BancorpSouth	BXS	23.25	▲	3	1	.95	30-	40	(30- 70%)	14.4	2.2	1.61	.50	51	6/30	.37	.41	12/31	▲.125	.10	YES
2504 Bank of America	BAC	16.26	▲	3	4	1.45	18-	25	(10- 55%)	11.5	1.9	1.41	.31	51	9/30	♦.41	.35	9/30	▲.075	.05	YES
2505 Bank of Hawaii	BOH	73.25	3	2	3	.95	65-	90	(N- 25%)	18.5	2.6	3.97	1.92	51	6/30	1.03	.95	9/30	.48	.45	YES
2506 Bank of Montreal (TSE)	BMO.TO	85.20(b)	3	2	2	.70	80-	110	(N- 30%)	12.5	4.1	6.80	3.52	51	7/31	1.86(b)	1.80(b)	12/31	.86(b)	.82(b)	YES
2507 Bank of New York Mellon	BK	40.03	▲	3	2	1.20	60-	95	(50-135%)	12.4	1.9	3.23	.76	51	6/30	.76	.77	9/30	▲.19	.17	YES
2508 Bank of Nova Scotia (TSE)	BNS.TO	70.78(b)	2	1	2	.75	70-	85	(N- 20%)	11.9	4.2	5.97	3.00	51	7/31	1.54(b)	1.45(b)	12/31	▲.74(b)	.70(b)	YES
173 Bard (C.R.)	BCR	223.42	3	1	3	.80	220-	265	(N- 20%)	21.5	0.5	10.41	1.05	48	6/30	2.54	2.27	12/31	♦.26	.24	YES
458 2164 Barnes & Noble	BKS	10.50	-	4	-	NMF	12-	20	(15- 90%)	35.0	5.7	▼.30	.60	61	7/31	d.20	d.27	12/31	.15	.15	YES
1741 Barnes Group	B	39.22	3	3	2	1.15	55-	80	(40-105%)	15.3	1.3	2.56	.52	36	6/30	.63	.61	12/31	♦.13	.12	YES
1567 Barrick Gold	ABX	16.37	2	3	2	.85	15-	25	(N- 55%)	27.7	0.5	.59	.08	3	6/30	.14	NIL	9/30	.02	.02	YES
1147 Bassett Furniture (NDQ)	BSET	23.93	5	3	4	.95	40-	60	(65-150%)	16.0	1.7	1.50	.40	96	8/31	.38	.39	12/			

PAGE NUMBERS

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RANKS

Industry Rank

Do Options Trade?

NAME OF STOCK	Ticker Symbol	Recent Price	RANKS			3-5 year Target Price and % appreciation potential	Current P/E Ratio	% Est'd Yield next 12 mos.	Est'd Earnings 12 mos. to 3-31-17	(f) Est'd Div'd next 12 mos.	LATEST RESULTS									
			Timeliness	Safety	Technical						Beta	Qtr. Ended	Earnings Per sh.	Year Ago	Qtr. Ended	Latest Div'd	Year Ago			
																		Options		
2541 BlackRock, Inc.	BLK	356.59	3	2	2	1.20	455- 615	(30- 70%)	17.8	2.6	20.08	9.16	58	9/30	5.26	5.00	9/30	2.29	2.18	YES
2653 Blackstone Group LP	BX	23.61	▲1	3	3	1.40	45- 70	(90-195%)	9.9	6.1	2.39	1.44	1	6/30	.44	.43	9/30	▲.36	.74	YES
845 2542 Block (H&R)	HRB	23.09	3	3	5	.85	35- 50	(50-115%)	13.2	3.8	1.75	.88	58	7/31	d.55	d.35	12/31	.22	.20	YES
352 Bloomin' Brands (NDQ)	BLMN	17.18	3	3	3	1.05	35- 50	(105-190%)	11.7	1.6	1.47	.28	87	6/30	.30	.26	9/30	.07	.06	YES
1246 1904 Blue Buffalo Pet Prod. (NDQ)	BUFF	25.02	-	3	-	NMF	20- 30	(N- 20%)	32.5	NIL	.77	NIL	49	6/30	.18	.13	9/30	NIL	NIL	YES
2627 Blue Nile (NDQ)	NILE	35.14	3	3	3	1.00	35- 55	(N- 55%)	37.0	NIL	.95	NIL	32	6/30	.18	.20	9/30	NIL	NIL	YES
614 Boardwalk Pipeline	BWP	16.74	2	4	3	.80	20- 35	(20-110%)	14.8	2.4	1.13	.40	6	6/30	.26	.16	9/30	.10	.10	YES
353 Bob Evans Farms (NDQ)	BOBE	39.80	3	3	4	.90	50- 75	(25- 90%)	17.7	3.4	2.25	1.36	87	7/31	.48	.51	9/30	.34	.31	YES
2455 706 Boeing	BA	131.50	3	1	5	1.05	160- 195	(20- 45%)	14.2	3.5	9.52	4.69	59	6/30	2.17	1.59	9/30	1.09	.91	YES
1107 Boise Cascade	BCC	23.83	3	3	3	1.30	30- 45	(25- 90%)	13.9	NIL	1.72	NIL	89	6/30	.49	.51	9/30	NIL	NIL	YES
707 Bombardier Inc. 'B' (TSE) BBDB.TO	BBDB	1.77b	2	5	2	1.05	2- 4	(15-125%)	NMF	NIL	d.12	NIL	59	6/30	d.06(b)	.05(b)	9/30	NIL	NIL	YES
381 Booz Allen Hamilton	BAH	30.09	4	3	3	1.00	25- 35	(N- 15%)	17.7	2.0	1.70	.61	69	6/30	.45	.43	9/30	.15	.13	YES
978 BorgWarner	BWA	33.64	4	3	4	1.40	55- 85	(65-155%)	10.2	1.5	3.30	.52	93	6/30	.84	.76	9/30	.13	.13	YES
2461 1966 Boston Beer 'A'	SAM	158.10	4	3	4	.90	255- 380	(60-140%)	24.1	NIL	6.57	NIL	38	6/30	2.06	2.18	9/30	NIL	NIL	YES
1515 Boston Properties	BXP	127.18	3	3	1	.90	125- 190	(N- 50%)	46.8	2.2	2.72	2.75	50	6/30	.63	.52	9/30	.65	.65	YES
176 Boston Scientific	BSX	23.12	3	3	3	1.00	30- 45	(30- 95%)	27.5	NIL	.84	NIL	48	6/30	.19	.15	9/30	NIL	NIL	YES
2357 Boyd Gaming	BYD	19.04	5	5	3	1.70	25- 45	(30-135%)	15.2	NIL	1.25	NIL	80	6/30	.16	.24	9/30	NIL	NIL	YES
1742 Brady Corp.	BRC	34.10	2	3	2	1.15	30- 50	(N- 45%)	19.6	2.4	1.74	.82	36	7/31	.48	.28	12/31	▲.205	.203	YES
1999 Bridgepoint Education	BPI	6.76	2	4	3	1.40	9- 14	(35-105%)	29.4	NIL	.23	NIL	25	6/30	.12	.16	9/30	NIL	NIL	YES
457 1706 Briggs & Stratton	BGG	18.95	3	3	4	1.10	20- 30	(5- 60%)	14.8	3.0	1.28	.56	68	6/30	.46	.51	12/31	▲.14	.135	YES
354 Brinker Int'l	EAT	50.25	5	3	3	.85	60- 85	(20- 70%)	13.9	2.7	3.61	1.36	87	6/30	1.24	.94	9/30	▲.34	.32	YES
382 Brink's (The) Co.	BCO	36.99	▲2	3	3	1.20	30- 45	(N- 20%)	32.4	1.1	1.14	.40	69	6/30	.13	.22	12/31	◆.10	.10	YES
2030 1612 Bristol-Myers Squibb	BMJ	50.05	2	1	3	.80	80- 100	(60-100%)	19.3	3.0	2.59	1.52	45	6/30	.69	d.08	12/31	.38	.38	YES
229 306 Bristol Group	BRS	11.59	1	4	4	1.30	13- 20	(10- 75%)	NMF	2.4	d.75	.28	92	6/30	d1.17	d.27	9/30	.07	.34	YES
1992 Brit. Amer Tobac. ADR (ASE)	BTI	118.76	2	2	2	.90	135- 185	(15- 55%)	19.2	3.6	6.20	4.25	15	6/30	2.95(p)	3.16(p)	9/30	NIL	NIL	YES
1353 Broadcom Ltd. (NDQ)	AVGO	172.17	1	3	3	1.20	170- 255	(N- 50%)	60.8	1.2	2.83	2.04	75	7/31	d.72	.85	9/30	▲.51	.40	YES
440 Broadridge Fin'l	BR	65.50	▼4	2	2	.95	55- 75	(N- 15%)	24.7	2.0	2.65	1.32	74	6/30	1.40	1.35	12/31	▲.33	.30	YES
843 1396 Brocade Communic. (NDQ)	BRCD	8.74	▲4	3	4	1.05	10- 15	(15- 70%)	12.0	2.5	.73	.22	83	6/30	.17	.21	12/31	.055	.045	YES
796 Brookdale Senior Living	BKD	15.48	▲1	4	3	1.55	20- 35	(30-125%)	NMF	NIL	d.74	NIL	70	6/30	d.19	d.46	9/30	NIL	NIL	YES
383 Brookfield Asset Mgmt.	BAM	36.00	4	3	3	1.20	45- 65	(25- 80%)	24.5	1.4	1.47	.52	69	6/30	.15	.62	9/30	.13	.12	YES
1743 Brookfield Infrastruc.	BIP	33.99	3	2	3	.95	35- 45	(5- 30%)	33.0	4.6	1.03	1.57	36	6/30	.39	.01	9/30	▲.393	.353	YES
1707 Brooks Automation (NDQ)	BRKS	13.30	3	3	3	1.20	14- 20	(5- 50%)	21.8	3.0	.61	.40	68	6/30	.16	.15	9/30	.10	.10	YES
2543 Brown & Brown	BRO	37.34	3	2	2	.90	45- 60	(20- 60%)	19.9	1.4	1.88	.54	58	6/30	.47	.43	12/31	▲.135	.12	YES
1967 Brown-Forman 'B'	BFB	45.38	3	1	4	.85	60- 75	(30- 65%)	25.2	1.5	1.80	.70	38	7/31	.36	.38	9/30	.17	.17	YES
116 Bruker Corp. (NDQ)	BRKR	21.67	3	3	3	1.30	25- 40	(15- 85%)	33.9	0.7	.64	.16	23	6/30	.09	.13	9/30	.04	NIL	YES
2303 Brunswick Corp.	BC	48.34	5	3	5	1.45	70- 105	(45-115%)	13.3	1.4	3.64	.66	85	6/30	1.19	1.05	12/31	▲.165	.15	YES
615 Buckeye Partners L.P.	BPL	70.01	3	3	2	1.00	95- 145	(35-105%)	16.3	7.1	4.29	4.98	6	6/30	1.07	.72	9/30	▲1.213	1.163	YES
2203 Buckle (The), Inc.	BKE	21.30	2	3	3	1.00	35- 50	(65-135%)	9.4	5.1	2.27	1.08	63	7/31	.32	.29	12/31	.25	.23	YES
355 Buffalo Wild Wings (NDQ)	BWLD	138.90	4	3	3	.85	185- 275	(35-100%)	23.1	NIL	6.02	NIL	87	6/30	1.27	1.12	9/30	NIL	NIL	YES
1905 Bunge Ltd.	BG	59.33	3	3	3	.85	75- 115	(25- 95%)	11.9	3.0	5.00	1.76	49	6/30	.81	.50	9/30	▲.42	.38	YES
2135 Burlington Stores	BURL	76.26	4	4	1	1.05	65- 110	(N- 45%)	24.8	NIL	3.07	NIL	57	7/31	.39	.19	9/30	NIL	NIL	YES
2583 CA, Inc.	CA	32.16	2	2	2	1.10	35- 45	(10- 40%)	17.4	3.2	1.85	1.02	14	6/30	.47	.47	9/30	.255	.25	YES
2606 CACI Int'l	CACI	100.30	4	3	3	1.05	85- 130	(N- 30%)	16.4	NIL	6.10	NIL	64	6/30	1.75	1.68	9/30	NIL	NIL	YES
708 CAE Inc. (TSE) CAE.TO	CAE	19.09	3	3	3	.80	19- 30	(N- 55%)	19.1	1.7	1.00	.32	59	6/30	.26(b)	.17(b)	9/30	▲.08(b)	.075(b)	YES
1792 CBOE Holdings (NDQ)	CBOE	65.01	3	3	3	.75	60- 90	(N- 40%)	24.5	1.5	2.65	1.00	47	6/30	.62	.54	9/30	▲.25	.23	YES
384 CBRE Group	CBG	26.65	4	3	4	1.35	45- 70	(70-165%)	11.2	NIL	2.39	NIL	69	6/30	.52	.42	9/30	NIL	NIL	YES
2331 CBS Corp. 'B'	CBS	55.10	3	3	3	1.20	60- 90	(10- 65%)	13.3	1.3	4.13	.72	76	6/30	.93	.67	12/31	▲.18	.15	YES
1636 CDI Corp.	CDI	6.06	-	4	-	1.20	5- 8	(N- 30%)	NMF	NIL	d.88	NIL	78	6/30	d.39	NIL	9/30	NIL	.13	YES
2609 CDW Corp. (NDQ)	CDW	44.28	5	3	3	1.00	50- 80	(15- 80%)	14.6	1.0	3.04	.43	64	6/30	.70	.63	9/30	.108	.068	YES
441 CEB Inc.	CEB	54.25	▲3	3	3	1.20	65- 100	(20- 85%)	30.5	3.2	1.78	1.76	74	6/30	.24	.69	9/30	.413	.375	YES
1354 CEVA, Inc. (NDQ)	CEVA	30.85	2	4	3	1.25	30- 50	(N- 60%)	49.8	NIL	.62	NIL	75	6/30	.13	.01	9/30	NIL	NIL	YES
1596 CF Industries	CF	23.46	2	3	4	1.40	30- 40	(30- 70%)	27.9	5.8	.84	1.35	4	6/30	.20	1.49	12/31	.30	.30	YES
385 C.H. Robinson (NDQ)	CHRW	68.80	3	2	3	.85	95- 125	(40- 80%)	18.5	2.5	3.72	1.72	69	6/30	1.00	.94	9/30	.43	.38	YES
2544 CIT Group	CIT	36.62	4	3	4	1.20	45- 65	(25- 75%)	11.2	1.6	3.27	.60	58	6/30	.90	.66	12/31	◆.15	.15	YES
1793 CME Group (NDQ)	CME	104.09	2	2	2	.80	90- 120	(N- 15%)	23.9	2.3	4.36	2.40	47	6/30	.95	.78	9/30	.60	.50	YES
906 CMS Energy Corp.	CMS	41.42	3	2	3	.65	30- 45	(N- 10%)	19.6	3.1	2.11	1.30	16	6/30	.45	.25	9/30	.31	.29	YES
761 CNA Fin'l (NDQ)	CNA	35.71	1	2	5	.95	55- 75	(55-110%)	11.9	2.8	3.01	1.00	46	6/30	.74	.49	9/30	.25	.25	YES
2607 CSG Systems Int'l	CSGS	39.46	3	3	1	.90	35- 50	(N- 25%)	21.8	1.9	1.81	.74	64	6/30	.33	.39	9/30			



PAGE NUMBERS

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NAME OF STOCK	Ticker Symbol	Recent Price			Timeliness	Safety		Technical		3-5 year Target Price Range and % appreciation potential	Current P/E Ratio	% Est'd Yield next 12 mos.	Est'd Earnings 12 mos. to 3-31-17	(f) Est'd Div'd next 12 mos.	LATEST RESULTS								
		Ticker Symbol				Beta	Safety	Technical	Qtr. Ended						Earnings Per sh.	Year Ago	Qtr. Ended	Latest Div'd	Year Ago				
		101.07b	66.95	42.46																153.43	130.95	29.24	76.11
2509	Can. Imperial Bank (TSE)	CM.TO	3	1	2	.75	105-	125	(5- 25%)	10.6	4.8	9.52	4.84	51	7/31	3.61(b)	2.42(b)	12/31	1.21(b)	1.12(b)	YES		
341	Can. National Railway	CNI	4	2	3	1.00	65-	90	(N- 35%)	18.9	1.7	3.55	1.17	91	6/30	8.87	.82	9/30	.27	.225	YES		
2404	Can. Natural Res. (TSE)	CNQ.TO	3	3	3	1.35	40-	60	(N- 40%)	NMF	2.2	d.05	.94	9	6/30	d.19	.16	12/31	.23	.23	YES		
342	Can. Pacific Railway	CP	4	3	3	1.15	175-	265	(15- 75%)	18.7	1.0	8.20	1.56	91	9/30	♦2.13	1.93	9/30	▲.36	.252	YES		
2136	Canadian Tire Corp. 'A' (TSE)	CTCA.TO	4	1	2	.65	165-	200	(25- 55%)	14.4	1.8	9.10	2.38	57	6/30	2.46	2.15	12/31	.575	.525	YES		
1983	Canon Inc. ADR(g)	CAJ	2	2	4	.85	45-	65	(55-120%)	16.7	4.5	1.75	1.33	52	6/30	.48	.52	9/30	.745	.628	YES		
203	Cantel Medical Corp.	CMN	▼4	3	3	1.05	55-	85	(N- 10%)	45.3	0.2	1.68	.14	39	7/31	.39	.32	3/31	▲.07	.06	YES		
2545	Capital One Fin'l	COF	3	3	4	1.15	70-	105	(N- 45%)	10.2	2.2	7.05	1.60	58	6/30	1.69	1.48	9/30	.40	.40	YES		
1503	Capitol Fed. Fin'l (NDQ)	CFFN	3	2	2	.70	13-	18	(N- 30%)	23.1	2.4	.61	.34	29	6/30	.15	.14	12/31	♦.085	.085	YES		
2417	CARBO Ceramics	CRR	1	4	3	1.45	30-	50	(185-375%)	NMF	NIL	d3.08	NIL	5	6/30	d.88	d.74	9/30	NIL	.10	YES		
204	Cardinal Health	CAH	3	1	3	.85	115-	145	(50- 90%)	17.3	2.5	4.39	1.86	39	6/30	1.02	.88	12/31	.449	.387	YES		
2000	Career Education (NDQ)	CECO	3	5	3	1.30	6-	11	(N- 60%)	NMF	NIL	d.09	NIL	25	6/30	1.17	d.31	9/30	NIL	NIL	YES		
1744	Carlisle Cos.	CSL	4	3	3	1.10	100-	150	(N- 40%)	18.0	1.3	5.85	1.40	36	6/30	1.75	1.43	9/30	▲.35	.30	YES		
2123	CarMax, Inc.	KMX	4	3	2	1.15	65-	100	(25- 95%)	15.7	NIL	3.25	NIL	95	8/31	.88	.82	9/30	NIL	NIL	YES		
2305	Carmike Cinemas (NDQ)	CKEC	-	4	-	1.15	35-	55	(5- 70%)	82.0	NIL	.40	NIL	85	6/30	d.07	d.06	9/30	NIL	NIL	YES		
2306	Carnival Corp.	CCL	4	3	5	1.00	60-	90	(30- 95%)	13.2	3.0	3.52	1.40	85	8/31	1.92	1.75	9/30	.35	.30	YES		
741	Carpenter Technology	CRS	3	3	3	1.45	60-	90	(55-135%)	23.2	1.9	1.66	.72	7	6/30	.35	.44	12/31	.18	.18	YES		
1832	Carriage Services	CSV	▼4	3	2	.85	25-	40	(5- 65%)	16.7	0.8	1.43	.20	34	6/30	.30	.24	9/30	▲.05	.025	YES		
2102	Carter's Inc.	CRI	5	3	2	.75	120-	180	(40-110%)	16.8	1.5	5.11	1.32	86	6/30	.71	.68	9/30	.33	.22	YES		
1036	1946 Casey's Gen'l Stores (NDQ)	CASY	5	3	2	.75	100-	150	(N- 30%)	20.3	0.8	5.75	.98	79	7/31	1.70	1.57	12/31	.24	.22	YES		
843	2546 Cash Amer. Int'l	CSH	SEE FINAL SUPPLEMENT - PAGE 843										3.5	3.61	3.08	55	6/30	1.09	1.27	12/31	♦.77	.77	YES
2456	156 Caterpillar Inc.	CAT	87.22	3	2	3	1.20	85-	115	(N- 30%)	24.2	4.4	2.36	1.32	63	7/31	.57	.56	9/30	.33	.30	YES	
2204	Cato Corp.	CATO	29.74	4	3	4	1.00	35-	55	(20- 85%)	12.6	4.4	2.36	1.32	63	7/31	.57	.56	9/30	.33	.30	YES	
1355	Cavium Inc. (NDQ)	CAVM	54.31	▲3	3	4	1.45	80-	120	(45-120%)	32.3	NIL	1.68	NIL	75	6/30	.29	.41	9/30	NIL	NIL	YES	
2307	Edcor Fair L.P.	FUN	58.03	5	3	3	1.90	65-	95	(10- 65%)	16.0	5.7	3.63	3.32	85	6/30	1.03	1.02	9/30	.825	.75	YES	
2446	Celanese Corp.	CE	69.37	5	3	4	1.45	85-	125	(25- 80%)	10.6	2.1	6.52	1.44	88	9/30	♦1.67	1.49	9/30	.36	.30	YES	
1328	Celastica Inc.	CLS	10.42	2	3	3	1.10	12-	18	(15- 75%)	12.0	NIL	.87	NIL	56	6/30	.25	.14	9/30	NIL	NIL	YES	
1613	Celgene Corp. (NDQ)	CELG	100.06	3	3	3	1.10	145-	220	(45-120%)	18.2	NIL	5.51	NIL	45	6/30	.75	.43	9/30	NIL	NIL	YES	
1108	CEMEX ADS	CX	8.73	3	4	3	1.70	9-	15	(5- 70%)	32.3	NIL	.27	NIL	89	6/30	.14	.09	9/30	NIL	NIL	YES	
503	Genovus Energy (TSE)	CVE.TO	20.29	2	3	3	1.10	25-	35	(25- 70%)	NMF	1.0	d.76	.20	18	6/30	d.32	.15	9/30	.05	.16	YES	
797	Centene Corp.	CNC	61.41	4	3	2	.95	90-	135	(45-120%)	12.4	NIL	4.96	NIL	70	6/30	.98	.72	9/30	NIL	NIL	YES	
907	CenterPoint Energy	CNP	22.51	2	3	3	.80	20-	30	(N- 35%)	22.5	4.7	1.00	1.06	16	6/30	d.01	.18	9/30	.258	.248	YES	
425	Central Europe/Russia	CEE	18.92	-	4	2	1.10	25-	40	(30-110%)	NMF	2.6	NMF	.50	-	4/30	22.26(q)	25.59(q)	9/30	NIL	NIL	YES	
1188	Central Garden & Pet (NDQ)	CENT	26.09	3	3	3	.80	20-	30	(N- 15%)	24.2	NIL	1.08	NIL	28	6/30	.51	.38	9/30	NIL	NIL	YES	
1028	CenturyLink Inc.	CTL	27.90	3	3	4	.95	35-	50	(25- 80%)	11.2	7.7	2.50	2.16	30	6/30	.63	.26	9/30	.54	.54	YES	
1036	205 Cepheid (NDQ)	CPHD	52.82	-	4	-	1.15	25-	45	(N- N%)	NMF	NIL	d.47	NIL	39	6/30	d.14	d.23	9/30	NIL	NIL	YES	
820	Cerner Corp. (NDQ)	CERN	61.15	3	2	2	1.00	70-	90	(15- 45%)	25.3	NIL	2.42	NIL	11	6/30	.58	.52	9/30	NIL	NIL	YES	
206	Charles River	CRL	81.08	3	3	3	1.05	90-	130	(10- 60%)	24.1	NIL	3.37	NIL	39	6/30	.73	1.02	9/30	NIL	NIL	YES	
729	Chart Industries (NDQ)	GTLS	32.79	1	3	3	1.75	45-	65	(35-100%)	27.3	NIL	1.20	NIL	17	6/30	.68	.56	9/30	NIL	NIL	YES	
1018	Charter Commun. (NDQ)	CHTR	259.95	3	3	2	.95	195-	290	(N- 10%)	62.9	NIL	4.13	NIL	73	6/30	.99	d1.21	9/30	NIL	NIL	YES	
1814	Check Point Software (NDQ)	CHKP	77.23	3	2	4	.90	90-	120	(15- 55%)	19.1	NIL	4.05	NIL	65	6/30	.95	.88	9/30	NIL	NIL	YES	
356	Chesapeake Factory (NDQ)	CAKE	50.93	4	2	3	.85	55-	75	(10- 45%)	18.3	1.9	2.79	.96	87	6/30	.78	.69	9/30	▲.24	.20	YES	
1745	Chemed Corp.	CHE	141.37	3	3	3	1.80	145-	215	(15- 55%)	21.5	0.7	6.57	1.04	36	6/30	1.48	1.55	9/30	▲.26	.24	YES	
777	Chemical Financial (NDQ)	CHFC	43.50	3	3	3	1.00	45-	65	(5- 50%)	15.3	2.5	2.85	1.08	19	6/30	.67	.54	9/30	▲.27	.26	YES	
229	Chemours Co. (The)	CC	15.86	-	4	-	NMF	17-	25	(5- 60%)	15.3	1.1	1.04	.18	62	6/30	.27	d.10	9/30	.03	NIL	YES	
1647	563 Chemtura Corp.	CHMT	32.85	-	3	-	1.50	40-	60	(20- 85%)	18.0	NIL	1.82	NIL	62	6/30	.40	.29	9/30	NIL	NIL	YES	
603	Cheniere Energy	LNG	41.61	2	4	3	1.55	60-	100	(45-140%)	NMF	NIL	d2.79	NIL	8	6/30	d1.31	d.52	9/30	NIL	NIL	YES	
525	Chesapeake Energy	CHK	6.52	2	5	3	1.90	6-	10	(N- 55%)	NMF	NIL	d3.56	NIL	13	6/30	d2.48	d6.27	9/30	NIL	NIL	YES	
545	Chesapeake Utilities	CPK	62.10	4	2	3	.60	70-	90	(15- 45%)	19.8	2.0	3.13	1.24	41	6/30	.52	.35	12/31	.305	.288	YES	
2659	504 Chevron Corp.	CVX	101.79	▲2	1	3	1.15	115-	140	(15- 40%)	73.2	4.2	1.39	4.28	18	6/30	d.78	.30	9/30	1.07	1.07	YES	
1236	Chicago Bridge & Iron	CBI	27.73	4	3	3	1.60	65-	95	(135-245%)	5.9	1.0	4.74	.28	35	6/30	1.17	1.55	9/30	.07	.07	YES	
843	2205 Chico's FAS	CHS	11.92	2	3	3	1.00	20-	30	(70-150%)	17.3	2.9	.69	.35	63	7/31	.17	.02	9/30	.08	.078	YES	
2206	Children's Place (NDQ)	PLCE	72.50	4	3	1	.65	75-	110	(5- 50%)	15.2	1.1	▲4.78	.80	63	7/31	d.01	d.33	12/31	.20	.15	YES	
979	China Auto. Sys. (NDQ)	CAAS	3.90	-	4	-	1.40	8-	13	(105-235%)	5.5	NIL	.71	NIL	93	6/30	.17	.24	9/30	NIL	NIL	YES	
426	China Fund (The)	CHN	16.35	-	3	2	.85	20-	35	(20-115%)	NMF	1.5	NMF	.25	-	4/30	16.71(q)	25.15(q)	9/30	NIL	NIL	YES	
357	Chipotle Mex. Grill	CMG	393.96	3	3	4	1.00	595-	890	(50-125%)													

PAGE NUMBERS

Bold type refers to Ratings and Reports

RANKS

Industry Rank

Do Options Trade?

NAME OF STOCK	Ticker Symbol	Recent Price			RANKS			3-5 year Target Price and % appreciation potential	Current P/E Ratio	% Est'd Yield next 12 mos.	Est'd Earnings 12 mos. to 3-31-17	(f) Est'd Div'd next 12 mos.	LATEST RESULTS			Do Options Trade?			
		Timeliness	Safety	Technical	Beta	Qtr. Ended	Earnings Per sh.						Year Ago	Qtr. Ended	Latest Div'd		Year Ago		
																		Qtr. Ended	Earnings Per sh.
2458 1968 Coca-Cola	KO	41.97	2 1 3	.70	45- 55	(5- 30%)	22.0	3.5	1.91	1.46	38	6/30	.60	.63	12/31	.35	.66	YES	
1969 Coca-Cola Bottling (NDO)	COKE	142.40	3 3 4	.75	160- 240	(10- 70%)	33.3	0.7	4.28	1.00	38	6/30	2.03	1.92	12/31	♦.25	.25	YES	
1970 Coca-Cola European Part.	CCE	38.03	- 3 -	NMF	45- 70	(20- 85%)	17.4	2.0	2.19	.75	38	6/30	.64	.58	12/31	.191	NIL	YES	
1019 Cogeco Communic. (TSE)	CCA.TO	63.10	5 3 5	.60	65- 95	(5- 50%)	12.0	2.5	5.28	1.56	73	5/31	1.28	1.30	9/30	.39	.35	YES	
2659 117 Cognex Corp. (NDO)	CGNX	52.24	3 3 3	1.30	45- 70	(N- 35%)	33.1	0.6	1.58	.30	23	6/30	.50	.49	9/30	.075	.07	YES	
1838 2610 Cognizant Technology (NDO)	CTSH	50.22	▼ 4 2 4	1.05	80- 105	(60-110%)	14.6	NIL	3.45	NIL	64	6/30	.87	.79	9/30	NIL	NIL	YES	
118 Coherent, Inc. (NDO)	COHR	103.08	3 3 3	1.20	75- 115	(N- 10%)	25.6	NIL	4.03	NIL	23	6/30	.76	.53	9/30	NIL	NIL	YES	
1746 Colfax Corp. (NDO)	CFX	29.00	▲ 3 3 3	1.35	40- 60	(40-105%)	20.0	NIL	1.45	NIL	36	6/30	.32	.50	9/30	NIL	NIL	YES	
1191 Colgate-Palmolive	CL	71.93	2 1 2	.75	85- 100	(20- 40%)	25.8	2.3	2.79	1.62	28	6/30	.67	.63	12/31	.39	.38	YES	
2103 Columbia Sportswear (NDO)	COLM	60.11	4 3 4	1.15	45- 70	(N- 15%)	22.3	1.3	2.70	.76	86	6/30	d.12	d.09	9/30	.17	.15	YES	
1708 Columbus McKinnon (NDO)	CMCO	17.79	3 3 4	1.25	25- 40	(40-125%)	11.1	0.9	1.60	.16	68	6/30	.34	.36	9/30	.04	.04	YES	
1020 Comcast Corp. (NDO)	CMCSA	64.88	5 2 3	.95	80- 105	(25- 60%)	18.6	1.7	3.49	1.10	73	6/30	.83	.84	12/31	.275	.25	YES	
778 Comerica Inc. (NDO)	CMA	50.05	▲ 2 3 3	1.25	50- 75	(N- 50%)	17.2	1.8	2.91	.92	19	9/30	♦.84	.74	12/31	▲ .23	.21	YES	
779 Commerce Bancshs. (NDO)	CBSH	48.52	2 1 2	.90	45- 60	(N- 25%)	17.6	1.9	2.75	.90	19	9/30	♦.68	.63	9/30	.225	.214	YES	
743 Commercial Metals	CMC	15.69	3 3 3	1.40	20- 30	(25- 90%)	11.8	3.1	1.33	.48	7	5/31	.31	.58	9/30	.12	.12	YES	
980 Commercial Vehicle (NDO)	CVGI	5.31	- 5 -	1.55	5- 8	(N- 50%)	33.2	NIL	.16	NIL	93	6/30	.10	.12	9/30	NIL	NIL	YES	
945 CommScope Holding (NDO)	COMM	31.46	▼ 4 3 3	1.20	45- 70	(45-125%)	12.0	NIL	2.62	NIL	37	6/30	.74	.49	9/30	NIL	NIL	YES	
1425 799 Community Health	CYH	10.53	- 4 -	1.35	20- 35	(90-230%)	7.4	NIL	1.43	NIL	70	6/30	.09	1.14	9/30	NIL	NIL	YES	
1598 Compass Minerals Int'l	CMP	72.55	2 3 4	.85	80- 120	(10- 65%)	26.5	3.9	2.74	2.85	4	6/30	.18	.39	9/30	.695	.66	YES	
230 821 Computer Prog. & Sys.(NDO)	CPSI	26.21	1 3 5	.85	40- 60	(55-130%)	23.2	5.2	1.13	1.36	11	6/30	.15	.52	9/30	▼.34	.64	YES	
2611 Computer Sciences	CSC	54.70	- 3 -	NMF	40- 60	(N- 10%)	18.2	1.0	3.00	.56	64	6/30	.53	.55	12/31	.14	.14	YES	
946 Comtech Telecom. (NDO)	CMTL	10.88	▲ 1 4 3	1.20	25- 35	(130-220%)	NMF	11.0	NIL	1.20	37	7/31	.14	.34	12/31	.30	.30	YES	
1649 1909 ConAgra Foods	CAG	48.38	- 1 -	.70	50- 65	(5- 35%)	20.3	2.1	2.38	1.00	49	8/31	.61	.41	12/31	.25	.25	YES	
527 Concho Resources	CXO	136.55	3 3 2	1.50	110- 170	(N- 25%)	NMF	NIL	.55	NIL	13	6/30	.26	.38	9/30	NIL	NIL	YES	
177 CONMED Corp. (NDO)	CNMD	40.35	3 3 4	.95	40- 60	(55-130%)	26.0	2.0	1.55	.80	48	6/30	.36	.36	12/31	.20	.20	YES	
1425 2170 Conn's, Inc. (NDO)	CONN	8.98	2 4 4	1.55	11- 19	(20-110%)	NMF	NIL	▼d.24	NIL	61	7/31	d.04	.45	9/30	NIL	NIL	YES	
1785 Conn. Water Services (NDO)	CTWS	51.36	3 3 3	1.60	40- 55	(N- 5%)	23.1	2.2	2.22	1.13	43	6/30	.89	.77	9/30	.283	.268	YES	
2405 ConocoPhillips	COP	40.65	3 3 3	1.35	45- 70	(10- 70%)	NMF	2.5	d2.33	1.00	9	6/30	d.79	.07	12/31	.25	.74	YES	
1586 CONSOL Energy	CNX	18.63	2 4 3	1.50	30- 50	(60-170%)	NMF	NIL	d.53	NIL	2	6/30	d.21	d.37	9/30	NIL	.01	YES	
1030 Consol. Communic. (NDO)	CNSL	24.66	3 3 3	.85	25- 40	(N- 60%)	72.5	6.3	.34	1.55	30	6/30	d.11	d.32	12/31	.387	.387	YES	
141 Consol. Edison	ED	73.24	3 1 3	.55	65- 80	(N- 10%)	17.2	3.7	4.25	2.74	12	6/30	.78	.74	9/30	.67	.65	YES	
1786 Consolidated Water (NDO)	CWCO	10.89	▲ 2 3 1	.95	20- 30	(85-175%)	17.3	2.8	.63	.30	43	6/30	.15	.15	12/31	.075	.075	YES	
1971 Constellation Brands	STZ	167.20	3 3 3	.95	150- 225	(N- 35%)	25.9	1.0	6.45	1.64	38	8/31	1.77	1.56	12/31	.40	.31	YES	
2171 Container Store Group	TCS	4.88	3 5 2	1.30	8- 15	(65-205%)	16.3	NIL	▲.30	NIL	61	6/30	d.04	NA	9/30	NIL	NIL	YES	
2406 Continental Resources	CLR	51.56	2 3 2	1.80	40- 60	(N- 15%)	NMF	NIL	d.95	NIL	9	6/30	d.24	NIL	9/30	NIL	NIL	YES	
387 Convergys Corp.	CVG	29.97	3 3 3	1.10	30- 45	(N- 50%)	15.3	1.2	1.96	.36	69	6/30	.41	.33	12/31	.09	.08	YES	
207 Cooper Cos. (NDO)	COO	180.68	▼ 3 2 1	.85	190- 255	(5- 40%)	24.5	NIL	7.38	.06	39	7/31	1.79	.91	9/30	.03	.03	YES	
981 Cooper Tire & Rubber	CTB	35.98	4 3 5	1.20	40- 60	(10- 65%)	8.9	1.2	4.05	.42	93	6/30	1.27	1.03	9/30	.105	.105	YES	
982 Cooper-Standard Holdings	CPS	95.31	5 3 3	.95	115- 170	(20- 80%)	11.0	NIL	8.70	NIL	93	6/30	2.20	1.98	9/30	NIL	NIL	YES	
2659 307 Copa Holdings, S.A.	CPA	92.01	3 3 3	1.25	70- 110	(N- 20%)	16.5	2.2	5.56	2.04	92	6/30	1.29	1.46	9/30	.51	.84	YES	
2124 Copart, Inc. (NDO)	CPRT	54.12	4 2 3	.90	55- 75	(N- 40%)	22.6	NIL	2.40	NIL	95	7/31	.59	.44	12/31	NIL	NIL	YES	
844 1947 Core-Mark Holding (NDO)	CORE	35.35	3 3 3	.75	30- 50	(N- 40%)	24.5	1.0	1.44	.36	79	6/30	.35	.29	9/30	.08	.065	YES	
442 CoreLogic	CLGX	38.77	▼ 4 3 1	1.20	45- 70	(15- 80%)	17.1	NIL	2.27	NIL	74	6/30	.65	.55	9/30	NIL	NIL	YES	
2418 Core Laboratories	CLB	111.99	1 3 4	1.15	140- 210	(25- 90%)	60.5	2.0	1.85	2.20	5	6/30	.38	.81	12/31	.55	.55	YES	
1815 Cornerstone OnDemand(NDO)	CSOD	40.60	3 4 2	1.20	50- 80	(25- 95%)	NMF	NIL	.01	NIL	65	6/30	NIL	d.16	9/30	NIL	NIL	YES	
1304 Corning Inc.	GLW	23.61	3 3 3	1.20	25- 35	(5- 50%)	32.3	2.3	.73	.54	27	6/30	d.39	.36	12/31	.135	.12	YES	
463 1517 Corrections Corp. Amer.	CXW				SEE LATEST REPORT														
443 CoStar Group (NDO)	CSGP	209.75	3 3 3	1.10	230- 345	(10- 65%)	47.5	NIL	4.42	NIL	74	6/30	.91	.08	9/30	NIL	NIL	YES	
2137 Costco Wholesale (NDO)	COST	149.11	▼ 4 1 3	.75	180- 225	(20- 50%)	26.8	1.2	5.56	1.80	57	8/31	1.77	1.73	12/31	♦.45	.40	YES	
1972 Cott Corp.	COT	13.79	4 3 2	.90	13- 19	(N- 40%)	39.4	1.7	.35	.24	38	6/30	.06	.02	9/30	.06	.06	YES	
1008 Coty Inc.	COTY	23.43	- 3 -	.80	25- 40	(5- 70%)	17.9	1.2	1.31	.28	21	6/30	.13	.08	9/30	.275	NIL	YES	
1218 Covanta Holding Corp.	CVA	15.20	3 3 4	.90	20- 30	(30- 95%)	NMF	6.6	d.11	1.00	26	6/30	d.23	d.05	12/31	.25	.25	YES	
358 Cracker Barrel (NDO)	CBRL	132.09	5 2 1	.75	120- 160	(N- 20%)	16.1	3.5	8.20	4.65	87	7/31	2.12	1.97	12/31	1.15	1.10	YES	
626 1973 Craft Brew Alliance	BREW	18.05	2 4 1	1.20	20- 35	(10- 95%)	46.3	NIL	.39	NIL	38	6/30	.12	.07	9/30	NIL	NIL	YES	
1747 Crane Co. (NDO)	CR	60.63	2 3 2	1.20	65- 100	(5- 65%)	14.2	2.2	4.27	1.32	36	6/30	1.21	1.06	9/30	.33	.33	YES	
2547 Crawford & Co. 'B'	CRDB	11.57	2 4 3	1.40	11- 18	(N- 55%)	16.5	1.7	.70	.20	58	6/30	.14	.06	9/30	.05	.05	YES	
2659 1397 Cray Inc. (NDO)	CRAY	21.33	4 4 4	1.20	40- 65	(90-205%)	18.1	NIL	1.18	NIL	83	6/30	d.29	.30	9/30	NIL	NIL	YES	
★ 1357 Cree, Inc. (NDO)	CREE	25.20	- 3 -	1.45	35- 55	(40-120%)	NMF	NIL	.04	NIL	75	9/30	NIL	d.24	9/30	NIL	NIL	YES	
2155 Crows, Inc. (NDO)	CROX	8.08	1 4 4	1.10	15- 25	(85-210%)	NMF	NIL	▼.05	NIL	81	6/30	.13	.30	9/30	NIL	NIL	YES	
1637 Cross Country Health. (NDO)	CCRN	12.79	▲ 2 4 4	1.20	14- 25	(10- 95%)	NMF	NIL	d.14	NIL	78	6/30	d.54	.08	9/30	NIL	NIL	YES	
589 Crown Castle Int'l	CCI	91.82	3 3 3	.85	110- 165	(20- 80%)	63.8	4.1	1.44	3.78	77	6/30	.22	.43	9/30	.885	.82	YES	
1178 Crown Holdings	CCK																		



PAGE NUMBERS

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RANKS

Industry Rank

Do Options Trade?

NAME OF STOCK	Ticker Symbol	Recent Price			Safety	Technical	Beta	3-5 year Target Price Range and % appreciation potential	Current P/E Ratio	% Est'd Yield next 12 mos.	Est'd Earnings 12 mos. to 3-31-17	(f) Est'd Div'd next 12 mos.	LATEST RESULTS						
		Timeliness	↓	↑									Qtr. Ended	Earnings Per sh.	Year Ago	Qtr. Ended	Latest Div'd	Year Ago	
																			↓
983 Dana Inc.	DAN	14.29	4	3	3	1.65	25- 40 (75-180%)	7.7	1.7	1.86	.24	93	6/30	.53	.42	9/30	.06	.06	YES
1036 1748 Danaher Corp.	DHR	76.43	2	2	2	NMF	100- 140 (30- 85%)	19.3	0.7	3.97	.50	36	6/30	1.25	1.08	12/31	▼.125	.135	YES
359 Darden Restaurants	DRI	63.03	3	3	5	.85	65- 95 (5- 50%)	15.8	3.6	3.99	2.24	87	8/31	.88	.68	12/31	.56	.55	YES
415 Darling Ingredients	DAR	13.49	▼3	3	2	1.20	18- 25 (35- 85%)	21.8	NIL	NIL	.62	24	6/30	.19	.06	9/30	NIL	NIL	YES
DaVita Healthcare							NAME CHANGED TO DAVITA INC.												
800 DaVita Inc.	DVA	62.51	4	2	4	.90	95- 130 (50-110%)	16.4	NIL	3.82	NIL	70	6/30	1.01	.95	9/30	NIL	NIL	YES
1910 Dean Foods	DF	16.73	4	4	4	.95	20- 35 (20-110%)	10.6	2.2	1.58	.36	49	6/30	.38	.33	9/30	.09	.07	YES
2156 Deckers Outdoor	DECK	56.24	3	3	3	1.05	95- 140 (70-150%)	13.1	NIL	4.30	NIL	81	6/30	d1.84	d1.43	9/30	NIL	NIL	YES
626 158 Deere & Co.	DE	86.61	2	1	4	1.00	90- 105 (5- 20%)	23.5	2.8	3.69	2.40	55	7/31	1.55	1.53	12/31	.60	.60	YES
984 Delphi Automotive PLC	DLPH	64.11	3	3	3	1.25	75- 110 (15- 70%)	11.1	1.9	5.80	1.24	93	6/30	.94	1.21	9/30	.29	.25	YES
308 Delta Air Lines	DAL	39.46	5	3	5	1.25	60- 85 (50-115%)	6.7	2.1	5.88	.81	92	9/30	◆1.70	1.74	9/30	▲.203	.135	YES
2378 Deluxe Corp.	DLX	65.47	4	3	2	1.25	65- 95 (5- 55%)	13.4	1.8	4.87	1.20	54	6/30	1.18	1.11	12/31	◆.30	.30	YES
2407 Denbury Resources	DNR	2.77	▲2	5	3	2.00	4- 8 (45-190%)	NMF	NIL	d.17	NIL	9	6/30	.08	.13	9/30	NIL	.062	YES
179 Dentsply Sirona (NDQ)	XRAY	59.06	2	2	1	1.00	70- 95 (20- 60%)	21.0	0.5	2.81	.31	48	6/30	.76	.73	12/31	.078	.073	YES
1206 Deutsche High Income	KHI	9.25	2	4	2	.70	7- 11 (N- 25%)	NMF	6.6	NMF	.61	-	5/31	9.06(q)	9.84(q)	9/30	.114	.153	YES
1031 Deutsche Telekom ADR (PNK)	DTEGY	15.97	4	2	3	1.00	19- 25 (20- 55%)	22.8	3.9	.70	.63	30	6/30	.14	.20	9/30	NIL	NIL	YES
528 Devon Energy	DVN	41.90	3	3	3	1.55	45- 65 (5- 55%)	NMF	0.6	.41	.24	13	6/30	.06	.78	12/31	.06	.24	YES
2001 DeVry Education Group	DV	22.23	▲2	3	4	1.15	30- 50 (35-125%)	9.1	1.7	2.45	.38	25	6/30	.65	.57	12/31	.18	.18	YES
209 DexCom Inc. (NDQ)	DXCM	82.52	3	4	1	1.00	55- 95 (N- 15%)	NMF	NIL	d.10	NIL	39	6/30	d.24	d.05	9/30	NIL	NIL	YES
1974 Diageo plc	DEO	108.15	2	1	2	.90	110- 135 (N- 20%)	22.1	3.2	4.90	3.45	38	6/30	1.45(p)	2.67(p)	9/30	NIL	NIL	YES
2419 Diamond Offshore	DO	16.97	3	3	4	1.15	35- 55 (105-225%)	22.3	NIL	.76	NIL	5	6/30	.16	.66	9/30	NIL	.125	YES
2408 Diamondback Energy (NDQ)	FANG	99.71	3	3	3	1.60	90- 130 (N- 30%)	NMF	NIL	.76	NIL	9	6/30	d2.17	d3.45	9/30	NIL	NIL	YES
330 Diana Shipping	DSX	2.50	-	4	-	1.45	3- 5 (20-100%)	NMF	NIL	d1.49	NIL	53	6/30	d.41	d.19	9/30	NIL	NIL	YES
2172 Dick's Sporting Goods	DKS	55.80	3	3	2	.95	55- 85 (N- 50%)	17.6	1.1	3.17	.63	61	7/31	.82	.77	9/30	.151	.138	YES
1415 Diebold, Inc.	DBD	22.80	1	3	3	1.15	35- 50 (55-120%)	12.7	1.8	1.80	.40	20	6/30	.43	.44	12/31	▼.10	.287	YES
1519 Digital Realty Trust	DLR	96.57	2	3	3	.80	85- 125 (N- 30%)	75.4	3.9	1.28	3.81	50	6/30	.19	.86	9/30	.88	.85	YES
709 DigitalGlobe, Inc.	DGI	26.50	3	3	2	1.15	25- 35 (N- 30%)	NMF	NIL	.09	NIL	59	6/30	.17	.09	9/30	NIL	NIL	YES
2138 Dillard's, Inc.	DDS	58.15	4	3	4	1.05	70- 100 (20- 70%)	10.1	0.5	5.78	.28	57	7/31	.35	.75	12/31	.07	.07	YES
360 DineEquity Inc.	DIN	78.38	4	3	4	.95	80- 115 (N- 45%)	13.7	4.7	5.73	3.68	87	6/30	1.45	1.41	9/30	.92	.875	YES
967 Diplomat Pharmacy	DPLP	28.40	3	4	3	1.25	40- 65 (40-130%)	30.5	NIL	.93	NIL	84	6/30	.14	.05	9/30	NIL	NIL	YES
2548 Discover Finl Svcs.	DFS	54.81	3	3	1	1.05	75- 110 (35-100%)	9.5	2.2	5.80	1.20	58	6/30	1.47	1.33	12/31	◆.30	.28	YES
2332 Discovery Commun. (NDQ)	DISCA	25.21	3	3	5	1.15	55- 80 (120-215%)	13.1	NIL	1.93	NIL	76	6/30	.66	.44	9/30	NIL	NIL	YES
1021 Dish Network 'A' (NDQ)	DISH	56.62	2	3	5	1.15	40- 60 (N- 5%)	17.4	NIL	3.25	NIL	73	6/30	.88	.70	9/30	NIL	NIL	YES
230 2333 Disney (Walt)	DIS	91.17	3	1	4	1.00	105- 130 (15- 45%)	15.3	1.6	5.97	1.42	76	6/30	1.59	1.45	9/30	.71	.66	YES
2009 Dolby Labs.	DLB	51.46	2	3	3	.90	45- 65 (N- 25%)	27.5	0.9	1.87	.48	44	6/30	.62	.34	9/30	.12	.10	YES
627 2139 Dollar General	DG	68.69	4	3	2	.75	100- 150 (45-120%)	15.4	1.7	4.46	1.15	57	7/31	1.08	.95	9/30	.25	.22	YES
2140 Dollar Tree, Inc. (NDQ)	DLTR	76.23	3	2	2	.75	110- 150 (45- 95%)	19.6	NIL	3.90	NIL	57	7/31	.72	d.46	9/30	NIL	NIL	YES
142 Dominion Resources	D	73.37	2	2	2	.70	80- 110 (10- 50%)	18.7	4.0	3.92	2.97	12	6/30	.73	.70	9/30	.70	.648	YES
361 Domino's Pizza	DPZ	159.45	4	3	4	.90	105- 160 (N- N%)	36.6	1.0	4.36	1.52	87	9/30	◆.96	.67	12/31	◆.38	.31	YES
1163 Domtar Corp.	UFS	37.47	2	3	5	1.15	60- 90 (60-140%)	11.7	4.4	3.19	1.66	42	6/30	.29	.60	12/31	.415	.40	YES
1710 Donaldson Co.	DCI	36.41	2	2	2	1.10	35- 50 (N- 35%)	23.6	1.9	1.54	.70	68	7/31	.44	.41	12/31	.175	.17	YES
1840 2379 Donnelley (R.R) & Sons(NDQ)	RRD						SEE LATEST REPORT												
985 Dorman Products (NDQ)	DORM	62.84	4	3	2	.90	65- 100 (5- 60%)	21.0	NIL	2.99	NIL	93	6/30	.75	.65	9/30	NIL	NIL	YES
159 Douglas Dynamics	PLOW	32.05	5	3	3	1.00	30- 45 (N- 40%)	19.5	2.9	1.64	.94	55	6/30	.71	.57	9/30	.235	.223	YES
1711 Dover Corp.	DOV	67.54	2	2	2	1.20	75- 105 (10- 55%)	19.8	2.6	3.41	1.76	68	9/30	◆.83	1.16	9/30	▲.44	.42	YES
1599 Dow Chemical	DOW	53.69	-	3	-	1.40	65- 100 (20- 85%)	14.9	3.7	3.61	1.96	4	6/30	.95	.91	12/31	.46	.42	YES
1975 Dr Pepper Snapple	DPS	87.66	3	2	3	.70	85- 115 (N- 30%)	19.5	2.5	4.49	2.18	38	6/30	1.39	1.14	9/30	.53	.48	YES
626 2334 DreamWorks Animation	DWA						SEE FINAL SUPPLEMENT - PAGE 626												
986 Drew Industries	DW	90.26	4	3	3	1.00	125- 185 (40-105%)	17.2	1.3	5.24	1.20	93	6/30	1.51	.85	9/30	.30	NIL	YES
2420 Dril-Quip, Inc.	DRQ	53.30	3	3	4	1.30	100- 150 (90-180%)	24.0	NIL	2.22	NIL	5	6/30	.96	1.01	9/30	NIL	NIL	YES
2456 1600 Du Pont	DD	69.50	-	1	-	1.10	70- 85 (N- 20%)	21.5	2.3	3.24	1.62	4	6/30	1.24	1.08	9/30	.38	.38	YES
143 Duke Energy	DUK	77.90	2	2	2	.60	80- 105 (5- 35%)	17.1	4.4	4.55	3.45	12	6/30	.95	.87	9/30	▲.855	.825	YES
1520 Duke Realty Corp.	DRE	25.88	4	3	3	1.05	30- 40 (15- 55%)	52.8	2.8	.49	.72	50	6/30	.31	.16	9/30	.18	.17	YES
444 Dun & Bradstreet	DNB	125.71	2	3	1	1.15	115- 175 (N- 40%)	16.8	1.5	7.47	1.93	74	6/30	1.37	1.21	12/31	◆.483	.463	YES
362 Dunkin' Brands Group (NDQ)	DNKN	50.06	4	3	3	.70	75- 110 (50-120%)	22.2	2.6	2.25	1.29	87	6/30	.57	.50	9/30	.30	.265	YES
923 Dycem Inds.	DY	85.07	5	3	3	1.25	110- 160 (30- 90%)	16.2	NIL	5.24	NIL	71	7/31	1.64	.97	9/30	NIL	NIL	YES
730 Dynamic Materials (NDQ)	BOOM	9.92	-	5	-	1.25	10- 19 (N- 90%)	43.1	0.8	.23	.08	17	6/30	d.05	d.10	12/31	.02	.02	YES
1794 E*Trade Finl (NDQ)	ETFC	28.42	4	3	3	1.50	30- 50 (5- 75%)	18.1	NIL	1.57	NIL	47	6/30	.48	.25	9/30	NIL	NIL	YES
1035 EMC Corp.	EMC						SEE FINAL SUPPLEMENT - PAGE 1035												
529 EOG Resources	EOG	93.13	2	3	2	1.45	55- 80 (N- N%)	NMF	0.8	d.97	.71	13	6/30	d.38	.28	12/31	.168	.168	YES
530 EQT Corp.	EQT	65.61	2	3	1	1.05	80- 120 (20- 85%)	NMF	0.2	d.37	.12	13	6/30	d.35	.01	12/31	◆.03	.03	YES
1109 Eagle Materials	EXP	78.43	3	3	3	1.40	90- 140 (15- 80%)	18.7	0.5	4.20	.40	89	6/30	.93	.75	12/31	.10	.10	YES
2629 EarthLink Hldgs. (NDQ)	ELNK	6.18	3																

PAGE NUMBERS

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RANKS

Industry Rank

Do Options Trade?

NAME OF STOCK	Ticker Symbol	Recent Price			RANKS			3-5 year Target Price Range and % appreciation potential	Current P/E Ratio	% Est'd Yield next 12 mos.	Est'd Earnings 12 mos. to 3-31-17	(f) Est'd Div'd next 12 mos.	LATEST RESULTS			Do Options Trade?		
		Timeliness	Safety	Beta	Qtr. Ended	Earnings Per sh.	Year Ago						Qtr. Ended	Latest Div'd	Year Ago			
																	Qtr. Ended	Earnings Per sh.
1305 Emerson Electric	EMR	49.88	- 1 -	1.10	65- 80	(30- 60%)	16.2	3.8	3.08	1.90	27	6/30	.80	.84	9/30	.475	.47	YES
1948 Empire Company Ltd.	(TSE) EMPA.TO	19.60	3 2 4	.50	25- 35	(30- 80%)	10.6	2.1	1.85	.42	79	7/31	.27	.44	12/31	.103	.10	YES
909 Empire Dist. Elec.	EDE	34.27	- 2 -	.75	20- 30	(N- N%)	25.6	3.1	1.34	1.05	16	6/30	.21	.15	9/30	.26	.26	YES
1038 605 Enbridge Inc.	(TSE) ENB.TO	58.16	5 2 2	.85	50- 70	(N- 20%)	24.1	3.6	2.41	2.12	8	6/30	.50	.60	9/30	.53	.465	YES
531 Encana Corp.	ECA	11.12	3 5 3	1.55	9- 17	(N- 55%)	NMF	0.5	.04	.06	13	6/30	.10	d.20	9/30	.015	.07	YES
231 1614 Endo Int'l plc	(NDQ) ENDP	19.85	3 3 4	.90	45- 65	(125-225%)	4.2	NIL	4.77	NIL	45	6/30	.86	1.20	9/30	NIL	NIL	YES
1816 Endurance Int'l Group	(NDQ) EIGI	8.00	4 4 5	1.05	10- 17	(25-115%)	NMF	NIL	d.46	NIL	65	6/30	d.21	d.02	9/30	NIL	NIL	YES
2023 2023 Endurance Specialty	(NDQ) ENH	91.88	- 2 -	.80	60- 80	(N- N%)	14.8	1.7	6.22	1.52	33	6/30	1.14	1.68	9/30	.38	.35	YES
532 Energen Corp.	EGN	56.25	3 3 2	1.55	40- 60	(N- 5%)	NMF	NIL	d.90	NIL	13	6/30	d.28	d1.52	9/30	NIL	.02	YES
1193 Energizer Holdings	ENR	48.77	- 3 -	NMF	40- 60	(N- 25%)	20.8	2.1	2.34	1.00	28	6/30	.32	d.32	9/30	.25	.25	YES
617 Energy Transfer	ETP	36.44	2 3 3	1.10	45- 70	(25- 90%)	24.6	11.6	1.48	4.22	6	6/30	.26	.38	9/30	1.055	1.035	YES
1220 EnerNOC, Inc.	(NDQ) ENOC	5.36	▲ 1 5 3	1.60	9- 16	(70-200%)	NMF	NIL	d2.59	NIL	26	6/30	NIL	d.64	9/30	NIL	NIL	YES
533 EnerSys Corp.	(TSE) ERF.TO	9.67	▼ 2 5 3	1.75	9- 17	(N- 75%)	NMF	1.2	d1.51	.12	13	6/30	d.77	d1.52	9/30	.03	.15	YES
1221 EnerPlus	ENS	66.15	3 3 2	1.25	70- 110	(5- 65%)	15.6	1.1	4.25	.70	26	6/30	1.02	1.03	9/30	.175	.175	YES
618 EnLink Midstream Part.	ENLK	18.36	1 3 3	1.35	18- 30	(N- 65%)	NMF	8.5	.09	1.56	6	6/30	d.07	.12	9/30	.39	.385	YES
2663 1750 EnPro Industries	NPO	56.26	3 3 3	1.20	100- 150	(80-165%)	29.5	1.5	1.91	.84	36	6/30	.60	.69	9/30	.21	.20	YES
2921 Ensco plc	ESV	8.47	2 4 5	1.45	13- 20	(55-135%)	9.8	0.5	.86	.04	5	6/30	.51	1.15	9/30	.01	.15	YES
910 Entergy Corp.	ETR	74.93	3 3 2	.65	70- 105	(N- 40%)	10.6	4.6	7.07	3.48	16	6/30	3.16	.83	9/30	.85	.83	YES
619 Enterprise Products	EPD	27.03	3 3 4	1.10	45- 65	(65-140%)	21.3	6.1	1.27	1.65	6	6/30	.27	.28	9/30	▲ .40	.38	YES
2335 Envision Communic.	EVC	7.06	3 5 1	1.45	9- 16	(25-125%)	19.1	1.7	.37	.12	76	6/30	.06	.06	9/30	.031	.025	YES
801 Envision Healthcare	EVHC	21.83	- 3 -	1.10	60- 90	(175-310%)	14.9	NIL	1.47	NIL	70	6/30	.34	.37	9/30	NIL	NIL	YES
445 Equifax, Inc.	EFX	130.28	4 2 3	1.00	145- 195	(10- 50%)	23.6	1.0	5.52	1.32	74	6/30	1.43	1.15	9/30	.33	.29	YES
1817 Equinix, Inc.	(NDQ) EQIX	365.94	3 3 2	1.05	215- 325	(N- N%)	NMF	1.9	3.30	7.00	65	6/30	.56	1.03	9/30	1.75	1.69	YES
1521 Equity Residential	EQR	61.08	5 3 4	.80	65- 95	(5- 55%)	38.4	3.5	1.59	2.12	50	6/30	.59	.78	12/31	.504	.553	YES
2030 947 Ericsson ADR(g)	(NDQ) ERIC	5.47	▲ 1 3 4	1.20	10- 14	(85-155%)	11.6	8.4	.47	.46	37	6/30	.07	.10	9/30	NIL	NIL	YES
764 Erie Indemnity	(NDQ) ERIE	104.72	2 2 3	.75	75- 105	(N- N%)	27.9	2.8	3.76	2.92	46	6/30	1.17	1.07	9/30	.73	.681	YES
1749 ESCO Technologies	ESE	44.90	2 3 2	1.05	50- 80	(10- 80%)	21.3	0.7	2.11	.32	36	6/30	.49	.41	12/31	.08	.08	YES
1417 Essendant Inc.	(NDQ) ESND	18.27	2 3 4	1.10	30- 45	(65-145%)	8.1	3.1	2.25	.56	20	6/30	.55	.82	3/31	.14	.14	YES
1522 Essex Property Trust	ESS	207.70	3 3 2	.80	230- 350	(10- 70%)	70.9	3.3	2.93	6.79	50	6/30	1.10	.70	12/31	1.60	1.44	YES
231 711 Esterline Technologies	ESL	73.00	2 3 3	1.35	90- 135	(25- 85%)	14.3	NIL	5.09	NIL	59	6/30	1.38	1.33	9/30	NIL	NIL	YES
1149 Ethan Allen Interiors	ETH	31.90	▼ 4 3 2	1.25	40- 60	(25- 90%)	14.9	2.1	2.14	.68	96	6/30	.57	.43	12/31	.17	.14	YES
427 European Equity Fund	EEA	7.74	- 3 3	1.05	10- 16	(30-105%)	NMF	1.3	NMF	.10	-	6/30	8.68(q)	9.33(q)	9/30	.02	NIL	YES
2024 Everest Re Group Ltd.	RE	195.34	4 1 3	.75	205- 250	(5- 30%)	11.5	2.5	17.06	4.80	33	6/30	3.17	4.68	9/30	1.15	.95	YES
144 Eversource Energy	ES	54.13	3 1 3	.70	55- 65	(N- 20%)	17.9	3.5	3.03	1.87	12	6/30	.64	.65	9/30	.445	.418	YES
145 Exelon Corp.	EXC	33.09	2 3 2	.70	30- 50	(N- 50%)	14.8	3.9	2.24	1.28	12	6/30	.43	.74	9/30	.318	.31	YES
2631 Expedia Inc.	(NDQ) EXPE	122.83	3 3 4	1.25	170- 255	(40-110%)	49.9	0.8	2.46	1.04	32	6/30	.21	.89	9/30	▲ .26	.24	YES
389 Expeditors Int'l	(NDQ) EXPD	49.42	3 2 3	1.00	85- 115	(70-135%)	20.0	1.6	2.47	.80	69	6/30	.63	.61	9/30	NIL	NIL	YES
628 2209 Express, Inc.	EXPR	11.71	3 3 4	1.10	20- 30	(70-155%)	11.3	NIL	1.04	NIL	63	7/31	.13	.25	9/30	NIL	NIL	YES
968 Express Scripts	(NDQ) ESRX	70.31	4 3 3	1.00	105- 155	(50-120%)	15.3	NIL	4.59	NIL	84	6/30	1.13	.88	9/30	NIL	NIL	YES
2360 Extended Stay America	STAY	13.70	3 3 4	1.15	20- 30	(45-120%)	15.4	5.5	.89	.76	80	6/30	.30	.29	9/30	.19	.17	YES
1523 Extra Space Storage	EXR	76.19	3 3 3	.80	110- 165	(45-115%)	32.6	4.2	2.34	3.18	50	6/30	.66	.47	9/30	.78	.59	YES
1398 Extreme Networks	(NDQ) EXTR	4.13	4 4 4	1.05	5- 9	(20-120%)	12.9	NIL	.32	NIL	83	6/30	.10	.10	9/30	NIL	NIL	YES
2657 505 Exxon Mobil Corp.	XOM	86.77	2 1 3	.95	100- 120	(15- 40%)	31.3	3.5	3.02	1.88	18	6/30	.41	1.00	9/30	.75	.73	YES
2550 EZCORP, Inc.	(NDQ) EZPW	10.89	- 4 -	1.40	4- 7	(N- N%)	NMF	NIL	d.07	NIL	58	6/30	.05	d.01	9/30	NIL	NIL	YES
948 F5 Networks	(NDQ) FFIW	117.56	3 3 2	1.15	135- 200	(15- 70%)	21.3	NIL	5.51	NIL	37	6/30	1.37	1.29	9/30	NIL	NIL	YES
119 FARO Technologies	(NDQ) FARO	34.75	3 3 4	1.40	50- 75	(45-115%)	31.3	NIL	1.11	NIL	23	6/30	.20	.24	9/30	NIL	NIL	YES
1424 120 FEI Company	FEIC		SEE FINAL SUPPLEMENT - PAGE 1424															
1306 FLIR Systems	(NDQ) FLIR	29.31	3 3 2	.95	35- 55	(20- 90%)	17.7	1.7	1.66	.51	27	6/30	.34	.36	9/30	.12	.11	YES
1601 FMC Corp.	FMC	47.22	2 3 2	1.25	40- 65	(N- 40%)	16.7	1.5	2.82	.69	4	6/30	.69	.66	12/31	.165	.165	YES
2422 FMC Technologies	FTI	31.15	- 3 -	1.25	35- 50	(10- 60%)	33.5	NIL	.93	NIL	5	6/30	.18	.52	9/30	NIL	NIL	YES
1194 FTD Companies	(NDQ) FTD	20.32	3 3 3	1.10	25- 40	(25- 95%)	32.3	NIL	.63	NIL	28	6/30	.43	.61	9/30	NIL	NIL	YES
390 FTI Consulting	FCN	43.88	2 3 3	1.00	50- 70	(15- 60%)	18.4	NIL	2.38	NIL	69	6/30	.66	.50	9/30	NIL	NIL	YES
2457 2632 Facebook Inc.	(NDQ) FB	128.57	3 3 3	.90	155- 235	(20- 85%)	39.2	NIL	3.28	NIL	32	6/30	.71	.25	9/30	NIL	NIL	YES
446 FactSet Research	FDS	155.84	4 2 1	1.00	160- 215	(5- 40%)	23.7	1.3	6.58	2.03	74	8/31	1.69	1.48	9/30	.50	.44	YES
2613 Fair Isaac	FICO	122.13	4 3 1	1.20	100- 150	(N- 25%)	34.2	0.1	3.57	.08	64	6/30	1.08	.62	9/30	.02	.02	YES
1424 Fairchild Semic.	FCS		SEE FINAL SUPPLEMENT - PAGE 1424															
1138 Fastenal Co.	(NDQ) FAST	38.16	3 2 3	1.00	50- 65	(30- 70%)	21.7	3.1	1.76	1.20	72	9/30	.44	.47	12/31	.30	.28	YES
988 Federal-Mogul Hldgs.	(NDQ) FDML	9.20	- 4 -	1.75	17- 30	(85-225%)	8.8	NIL	1.04	NIL	93	6/30	.28	.28	9/30	NIL	NIL	YES
1524 Federal Rlty. Inv. Trust	FRT	147.10	2 2 2	.75	140- 190	(N- 30%)	46.4	2.7	3.17	3.96	50	6/30	.77	.46	12/31	▲ .98	.94	YES
160 Federal Signal	FSS	12.99	▲ 3 3 4	1.20	19- 30	(45-130%)	16.9	2.2	.77	.28	55	6/30	.17	.29	9/30	.07	.06	YES
2551 Federated Investors	FII	27.78	2 3 1	1.20	35- 50	(25- 80%)	13.9	3.6	2.00	1.00	58	6/30	.51	.40	9/30	.25	.25	YES
1427 309 FedEx Corp.	FDX	170.74	4 1 3	1.10	235- 290	(40- 70%)	14.8	0.9	11.55	1.60	92	8/31	2.90</					



PAGE NUMBERS

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RANKS

Industry Rank

Do Options Trade?

NAME OF STOCK	Ticker Symbol	Recent Price	RANKS			3-5 year Target Price Range and % appreciation	Current P/E Ratio	% Est'd Yield next 12 mos.	Est'd Earnings 12 mos. to 3-31-17	(f) Est'd Div'd next 12 mos.	LATEST RESULTS			Do Options Trade?								
			Timeliness	Safety	Technical Beta						Qtr. Ended	Earnings Per sh.	Year Ago		Qtr. Ended	Latest Div'd	Year Ago					
																		Qtr. Ended	Earnings Per sh.	Year Ago		
2614	Fiserv Inc. (NDQ)	FISV	100.06	3	2	3	.90	85- 115	(N- 15%)	21.8	NIL	4.59	NIL	64	6/30	1.08	.95	9/30	NIL	NIL	YES	
1330	Fitbit Inc.	FIT	13.54	-	4	-	NMF	35- 55	(160-305%)	10.7	NIL	1.27	NIL	56	6/30	1.12	.21	9/30	NIL	NIL	YES	
2141	Five Below, Inc. (NDQ)	FIVE	36.38	3	3	1	.90	65- 95	(80-160%)	27.4	NIL	1.33	NIL	57	7/31	.18	.13	9/30	NIL	NIL	YES	
2554	FleetCor Technologies	FLT	173.56	4	3	3	1.05	195- 295	(10- 70%)	25.5	NIL	6.80	NIL	58	6/30	1.56	1.48	9/30	NIL	NIL	YES	
1331	Flextronics Int'l (NDQ)	FLEX	13.94	3	3	4	1.15	15- 25	(10- 80%)	13.3	NIL	1.05	NIL	56	6/30	.21	.19	9/30	NIL	NIL	YES	
238	1911 Flowers Foods	FLO	15.47	3	3	5	.75	20- 35	(30-125%)	16.1	4.1	.96	.64	49	6/30	.26	.25	9/30	.16	.145	YES	
1712	Flowserve Corp.	FLS	42.93	2	3	3	1.30	50- 75	(15- 75%)	17.1	1.8	2.51	.76	68	6/30	.57	.80	12/31	.19	.18	YES	
1237	Fluor Corp.	FLR	50.53	3	3	4	1.35	65- 95	(30- 90%)	15.2	1.7	3.33	.84	35	6/30	.72	1.00	12/31	.21	.21	YES	
1504	Flushing Financial (NDQ)	FFIC	22.75	3	3	2	.90	20- 30	(N- 30%)	10.3	3.1	2.21	.71	29	6/30	1.05	.51	9/30	.17	.16	YES	
628	2211 Foot Locker	FL	67.89	4	3	3	.90	70- 105	(5- 55%)	14.0	1.6	4.86	1.10	63	7/31	.94	.84	12/31	.275	.25	YES	
2465	105 Ford Motor (NDQ)	F	11.89	3	3	3	1.25	16- 25	(35-110%)	6.7	5.0	1.77	.60	60	6/30	.52	.54	12/31	◆.15	.15	YES	
1526	Forest City Realty	FCEA	21.59	-	4	-	1.30	20- 35	(N- 60%)	80.0	1.1	2.77	.24	50	6/30	1.10	1.28	9/30	.06	NIL	YES	
447	Forrester Research (NDQ)	FORR	37.90	▼	2	2	.75	40- 60	(5- 60%)	30.8	2.0	1.23	.74	74	6/30	.46	.40	9/30	.18	.17	YES	
2031	Fortinet Inc. (NDQ)	FTNT	30.99	1	3	1	1.25	55- 80	(75-160%)	NMF	NIL	1.17	NIL	14	6/30	d.01	NIL	9/30	NIL	NIL	YES	
1751	Fortis Inc. (TSE)	FTS.TO	42.46	3	2	3	.65	50- 70	(20- 65%)	19.0	3.8	2.23	1.60	36	6/30	.46	.44	12/31	▲.40	.375	YES	
121	Fortive Corp.	FTV	49.09	-	3	-	NMF	45- 65	(N- 30%)	20.3	0.6	2.42	.28	23	6/30	.69	NA	/	NIL	NIL	YES	
2654	Fortress Investment	FIG	5.13	3	3	4	1.35	12- 18	(135-250%)	5.2	7.0	.99	.36	1	6/30	.26	.30	9/30	.09	.08	YES	
1150	Fortune Brands Home	FBHS	54.81	4	3	3	1.25	70- 100	(30- 80%)	19.1	1.2	2.87	.64	96	6/30	.82	.59	12/31	.16	.16	YES	
320	Forward Air (NDQ)	FWRD	41.91	3	3	3	1.05	65- 100	(55-140%)	17.3	1.1	2.42	.48	94	6/30	.57	.51	9/30	.12	.12	YES	
2173	Fossil Group (NDQ)	FOSL	28.02	2	3	4	1.35	55- 80	(95-185%)	13.5	NIL	2.08	NIL	61	6/30	.12	1.12	9/30	NIL	NIL	YES	
2212	Francesca's Hldgs. (NDQ)	FRAN	16.81	3	3	5	.90	25- 35	(60-120%)	15.5	NIL	1.02	NIL	63	7/31	.27	.22	9/30	NIL	NIL	YES	
1569	Franco-Nevada Corp.	FNV	55.03	3	3	1	.75	60- 95	(N- 45%)	69.5	1.3	.95	.88	3	6/30	.24	.14	9/30	.22	.21	YES	
1307	Franklin Electric (NDQ)	FELE	38.20	3	3	2	1.25	40- 60	(5- 55%)	20.4	1.0	1.87	.40	27	6/30	.50	.33	9/30	.10	.098	YES	
2555	Franklin Resources (NDQ)	BEN	34.23	▲	2	3	1.30	55- 75	(60-120%)	11.8	2.4	2.90	.81	58	6/30	.77	.82	12/31	.18	.15	YES	
2142	Fred's Inc. (NDQ)	FRED	8.83	▲	2	3	1.05	14- 20	(60-125%)	NMF	2.7	▼d.39	.24	57	7/31	d.18	d.13	9/30	.06	.06	YES	
1587	Freep't-McMoran Inc.	FCX	9.72	1	4	3	1.80	25- 35	(155-260%)	16.5	NIL	.59	NIL	2	6/30	NIL	.13	9/30	NIL	.05	YES	
1912	Fresh Del Monte Prod.	FDP	62.20	3	3	4	.85	45- 65	(N- 5%)	15.8	1.0	3.93	.60	49	6/30	1.86	1.21	9/30	▲.15	.125	YES	
1032	Frontier Commun. (NDQ)	FTR	4.08	2	4	2	1.15	5- 8	(25- 95%)	NMF	10.3	d.10	.42	30	6/30	d.02	.03	9/30	.105	.105	YES	
331	Frontline Ltd. (NDQ)	FRO	7.56	3	5	5	1.70	12- 20	(60-165%)	7.2	10.6	1.05	.80	53	6/30	.25	.24	9/30	▼.20	NIL	YES	
1223	FuelCell Energy (NDQ)	FCEL	4.90	3	5	4	1.60	4- 8	(N- 65%)	NMF	NIL	d1.51	NIL	26	7/31	d.38	d.29	9/30	NIL	NIL	YES	
1984	FUJIFILM Hldgs. ADR(g)/PNK	FUJIY	38.40	4	3	3	.95	45- 65	(15- 70%)	20.2	1.9	1.90	.72	52	6/30	.24	.41	9/30	.315	.29	YES	
566	Fuller (H.B.)	FUL	44.03	3	3	2	1.20	50- 70	(15- 60%)	16.4	1.3	2.68	.56	62	8/31	.64	.52	12/31	◆.14	.13	YES	
844	2104 G-III Apparel Group (NDQ)	GIII	27.94	4	3	4	1.10	55- 80	(95-185%)	12.5	NIL	2.24	NIL	86	7/31	d.03	.27	9/30	NIL	NIL	YES	
391	G&K Services (NDQ)	GK	94.80	-	3	-	1.05	60- 90	(N- N%)	24.5	1.6	3.87	1.56	69	6/30	1.00	.83	9/30	▲.39	.37	YES	
343	GATX Corp.	GATX	44.08	3	3	4	1.15	50- 75	(15- 70%)	8.7	3.6	5.08	1.60	91	6/30	1.49	1.03	9/30	.40	.38	YES	
2460	2174 GNC Holdings	GNC	19.40	3	3	4	1.00	▼ 30- 45	(55-130%)	6.4	4.1	▼3.01	.80	61	6/30	.94	.79	9/30	.20	.18	YES	
1207	Gabelli Equity	GAB	5.30	-	3	3	1.10	7- 10	(30- 90%)	NMF	0.9	NMF	.05	-	6	6/30	5.77(q)	6.59(q)	6/30	.01	.01	YES
2556	Gallagher (Arthur J.)	AJG	50.02	3	1	2	.90	60- 75	(20- 50%)	17.3	3.0	2.89	1.52	58	6/30	.84	.81	9/30	.38	.37	YES	
844	2175 GameStop Corp. (NDQ)	GME	24.82	▲	3	4	.95	50- 75	(100-200%)	6.1	6.0	4.07	1.48	61	7/31	.27	.24	9/30	▼.37	.36	YES	
2387	Gannett Co.	GCI	10.64	-	3	-	NMF	20- 30	(90-180%)	10.2	6.1	1.04	.65	-	6/30	.10	.43	12/31	◆.16	.16	YES	
2031	2213 Gap (The), Inc. (NDQ)	GPS	25.91	3	3	4	1.00	▲ 25- 40	(N- 55%)	13.0	3.6	1.99	.92	63	7/31	.60	.53	9/30	.23	.23	YES	
1308	Garmin Ltd.	GRMN	48.64	2	2	3	1.00	45- 60	(N- 25%)	19.0	4.3	2.56	2.07	27	6/30	.87	.72	9/30	.51	.51	YES	
448	Gartner Inc.	IT	88.13	3	2	3	.90	125- 165	(40- 85%)	31.6	NIL	2.79	NIL	74	6/30	.71	.65	9/30	NIL	NIL	YES	
332	GasLog Ltd. (NDQ)	GLOG	16.55	2	4	4	1.65	15- 25	(N- 50%)	87.1	3.4	.19	.56	53	6/30	d.01	NIL	9/30	.14	.14	YES	
1224	Generac Holdings	GNRC	36.62	3	3	3	1.00	60- 95	(65-160%)	22.9	NIL	1.60	NIL	26	6/30	.31	.21	9/30	NIL	NIL	YES	
1208	Gen'l Amer. Invest	GAM	31.82	-	3	3	1.05	45- 70	(40-120%)	NMF	1.8	NMF	.56	-	6	6/30	37.94(q)	40.72(q)	9/30	NIL	NIL	YES
1309	Gen'l Cable	BGC	14.25	3	4	2	1.70	18- 30	(25-110%)	14.8	5.1	.96	.72	27	6/30	.30	.36	9/30	.18	.18	YES	
924	Gen'l Commun. 'A' (NDQ)	GNCMA	14.80	3	4	5	1.05	20- 35	(35-135%)	NMF	NIL	.10	NIL	71	6/30	d.01	d.41	9/30	NIL	NIL	YES	
712	Gen'l Dynamics	GD	151.88	3	1	2	.95	130- 160	(N- 5%)	15.7	2.0	9.66	3.04	59	6/30	2.44	2.27	12/31	.76	.69	YES	
2457	1752 Gen'l Electric	GE	28.98	2	3	2	1.10	35- 55	(20- 90%)	18.5	3.2	1.57	.92	36	6/30	.36	.31	9/30	.23	.23	YES	
1528	General Growth Prop.	GGP	26.23	3	3	1	1.00	30- 45	(15- 70%)	34.1	3.1	.77	.81	50	6/30	.19	.44	12/31	▲.20	.19	YES	
1913	Gen'l Mills	GIS	61.91	3	1	1	.70	70- 85	(15- 35%)	20.5	3.1	3.02	1.94	49	8/31	.78	.79	12/31	.48	.44	YES	
106	General Motors	GM	31.40	4	3	4	1.25	40- 60	(25- 90%)	5.3	4.8	5.92	1.52	60	6/30	1.86	1.28	9/30	.38	.36	YES	
844	2157 Genesco Inc. (NDQ)	GCO	54.05	3	3	5	.95	80- 115	(50-115%)	13.9	NIL	▼3.88	NIL	81	7/31	.34	.36	9/30	NIL	NIL	YES	
344	Genessee & Wyoming	GWR	69.11	▲	3	4	1.35	75- 115	(10- 65%)	19.0	NIL	3.63	NIL	91	6/30	.93	.93	9/30	NIL	NIL	YES	
210	Genomic Health (NDQ)	GHDX	29.82	1	3	4	.90	25- 40	(N- 35%)	NMF	NIL	d.36	NIL	39	6/30	d.18	d.29	9/30	NIL	NIL	YES	
392	Genpact Limited	G	23.65	4	3	3	.85	30- 45	(25- 90%)	18.8	NIL	1.26</										





PAGE NUMBERS

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RANKS

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NAME OF STOCK	Ticker Symbol	Recent Price			RANKS			3-5 year Target Price Range and % appreciation potential	Current P/E Ratio	% Est'd Yield next 12 mos.	Est'd Earnings 12 mos. to 3-31-17	(f) Est'd Div'd next 12 mos.	LATEST RESULTS					
		Timeliness	Safety	Technical	Beta	Qtr. Ended	Earnings Per sh.						Year Ago	Qtr. Ended	Latest Div'd	Year Ago		
																	Do Options Trade?	
784 Huntington Bancshs. (NDO)	HBAN	9.80	3 3 4	1.15	11- 17	(10- 75%)	13.2	3.3	3.74	.32	19	6/30	.19	.23	12/31	.07	.06	YES
714 Huntington Ingalls	HII	160.58	5 3 3	1.05	150- 225	(N- 40%)	16.3	1.2	9.83	2.00	59	6/30	2.80	3.22	9/30	.50	.40	YES
2449 Huntsman Corp.	HUN	15.78	3 4 2	1.75	25- 45	(60-185%)	8.5	3.2	1.86	.50	88	6/30	.36	.12	9/30	.125	.125	YES
396 Huron Consulting (NDO)	HURN	55.80	3 3 1	1.00	55- 80	(N- 45%)	22.5	NIL	2.48	NIL	69	6/30	.77	.62	9/30	NIL	NIL	YES
508 Husky Energy (TSE)	HSE.TO	15.70	▲ 2 3 4	1.05	20- 30	(25- 90%)	NMF	NIL	d.43	NIL	18	6/30	d.20	.10	9/30	NIL	.30	YES
2362 Hyatt Hotels	H	50.39	▲ 3 3 2	1.15	60- 90	(20- 80%)	33.6	NIL	1.50	NIL	80	6/30	.64	.28	9/30	NIL	NIL	YES
2634 IAC/InterActiveCorp (NDO)	IAC	64.62	2 3 5	1.10	80- 120	(25- 85%)	42.8	NIL	1.51	NIL	32	6/30	d.05	.68	9/30	NIL	.34	YES
182 ICU Medical (NDO)	ICUI	144.09	3 3 4	.80	110- 165	(N- 15%)	39.0	NIL	3.69	NIL	48	6/30	.98	.83	9/30	NIL	NIL	YES
449 IHS Markit (NDO)	INFO	37.30	- 3 -	1.00	45- 65	(20- 75%)	66.6	NIL	.56	NIL	74	8/31	d.09	.25	9/30	NIL	NIL	YES
123 II-VI Inc. (NDO)	IIVI	25.75	3 3 4	1.10	25- 35	(N- 35%)	24.5	NIL	1.05	NIL	23	6/30	.23	.27	9/30	NIL	NIL	YES
2314 ILG, Inc. (NDO)	ILG	16.44	3 3 4	1.10	25- 35	(50-115%)	15.1	2.9	1.09	.48	85	6/30	.36	.29	9/30	.12	.12	YES
1837 IMS Health Hldgs. (NDO)	IMS				SEE FINAL SUPPLEMENT - PAGE 1837													
1387 IPG Photonics Corp. (NDO)	IPGP	82.58	3 3 4	1.40	105- 160	(25- 95%)	17.1	NIL	4.83	NIL	67	6/30	1.25	1.15	9/30	NIL	NIL	YES
★ 912 ITC Holdings	ITC				SEE FINAL SUPPLEMENT - PAGE 2238													
1756 ITT Inc.	ITT	34.02	4 3 3	1.20	45- 70	(30-105%)	13.9	1.5	2.45	.50	36	6/30	.67	.69	12/31	.124	.118	YES
2108 Ixonix Brand Group (NDO)	ICON	7.89	3 4 4	1.25	▲ 11- 18	(40-130%)	8.8	NIL	▼.90	NIL	86	6/30	.27	.45	9/30	NIL	NIL	YES
2230 IDACORP, Inc.	IDA	75.79	3 2 3	.75	55- 80	(N- 5%)	18.9	2.9	4.00	2.20	31	6/30	1.12	1.31	9/30	.51	.47	YES
★ 1714 IDEX Corp.	IEX	86.79	▼ 5 2 1	1.10	105- 145	(20- 65%)	22.7	1.6	3.83	1.36	68	9/30	◆.92	.85	12/31	.34	.32	YES
2661 214 IDEXX Labs. (NDO)	IDXX	112.57	4 3 3	.90	100- 150	(N- 35%)	46.7	NIL	2.41	NIL	39	6/30	.74	.60	9/30	NIL	NIL	YES
2032 732 Illinois Tool Works (NDO)	ITW	115.08	▼ 4 1 2	1.05	115- 145	(N- 25%)	20.0	2.3	5.76	2.60	17	6/30	1.46	1.30	12/31	▲.65	.55	YES
215 ILMN	ILMN	145.22	4 3 4	.85	205- 310	(40-115%)	43.1	NIL	3.37	NIL	39	6/30	.82	.69	9/30	NIL	NIL	YES
2312 IMAX Corp. (NDO)	IMAX	30.14	3 3 5	1.15	60- 85	(100-180%)	29.0	NIL	1.04	NIL	85	6/30	.11	.34	9/30	NIL	NIL	YES
2012 Immersion Corp. (NDO)	IMMR	7.76	2 4 4	1.15	9- 15	(15- 95%)	NMF	NIL	d.21	NIL	44	6/30	d.22	.05	9/30	NIL	NIL	YES
509 Imperial Oil Ltd. (ASE)	IMO	32.51	1 2 4	1.20	40- 55	(25- 70%)	39.6	1.4	.82	.46	18	6/30	.01	.38	9/30	▲.116	.094	YES
831 Incyte Corp. (NDO)	INCY	88.78	3 4 5	1.25	90- 150	(N- 70%)	NMF	NIL	.68	NIL	40	6/30	.18	.06	9/30	NIL	NIL	YES
428 India Fund (The)	IFN	24.66	- 3 3 1	1.00	30- 50	(20-105%)	NMF	0.6	NMF	.15	-	6/30	27.97(q)	29.48(q)	9/30	.037	.10	YES
950 Infina Corp. (NDO)	INFN	8.78	4 4 4	1.30	15- 20	(70-130%)	NMF	NIL	.02	NIL	37	6/30	.08	.13	9/30	NIL	NIL	YES
1425 592 Infoblox Inc. (NDO)	BLOX	26.35	- 4 -	1.05	30- 50	(15- 90%)	NMF	NIL	d.43	NIL	77	7/31	d.18	d.08	9/30	NIL	NIL	YES
★ 2616 Infosys Ltd. ADR	INFY	15.91	3 2 4	.90	30- 40	(90-150%)	15.2	2.6	1.05	.42	64	9/30	◆.24	.23	9/30	NIL	NIL	YES
1757 Ingersoll-Rand	IR	64.96	3 3 3	1.20	75- 110	(15- 70%)	15.7	2.5	4.15	1.60	36	6/30	1.38	1.20	12/31	▲.40	.29	YES
1949 Ingles Markets (NDO)	IMKTA	39.80	4 3 4	.75	35- 55	(N- 40%)	13.7	1.7	2.90	.66	79	6/30	.63	.68	12/31	.165	.165	YES
1401 Ingram Micro 'A'	IM	36.10	- 3 -	1.05	40- 60	(10- 65%)	13.6	NIL	2.65	NIL	83	6/30	.61	.55	9/30	NIL	.10	YES
1918 Ingreddion Inc. (NDO)	INGR	134.80	3 3 3	.95	115- 175	(N- 30%)	20.1	1.5	6.72	2.03	49	6/30	1.72	1.47	12/31	▲.50	.45	YES
568 Innospec Inc. (NDO)	IOSP	61.96	5 3 3	1.15	55- 80	(N- 30%)	16.9	1.1	3.66	.70	62	6/30	1.18	1.40	9/30	NIL	NIL	YES
2663 2180 Insight Enterprises (NDO)	NSIT	32.91	3 3 3	1.30	35- 50	(5- 50%)	13.1	NIL	2.52	NIL	61	6/30	.96	.67	9/30	NIL	NIL	YES
1639 Insperity Inc. (NDO)	NSP	75.15	3 3 4	1.00	85- 130	(15- 75%)	25.7	1.3	2.92	1.00	78	6/30	.45	.29	9/30	.25	.22	YES
183 Insulet Corp. (NDO)	PODD	39.72	3 3 2	1.10	35- 55	(N- 40%)	NMF	NIL	d.43	NIL	48	6/30	d.08	d.27	9/30	NIL	NIL	YES
1334 Integer Holdings (NDO)	ITGR	19.54	▲ 3 3 3	1.10	45- 70	(130-260%)	6.8	NIL	2.86	NIL	56	6/30	.56	.64	9/30	NIL	NIL	YES
184 Integra LifeSciences (NDO)	IART	81.63	2 3 3	.95	80- 115	(N- 40%)	40.0	NIL	2.04	NIL	48	6/30	.32	.35	9/30	NIL	NIL	YES
1359 Integrated Device (NDO)	IDTI	20.15	4 3 4	1.30	30- 45	(50-125%)	14.9	NIL	1.35	NIL	75	6/30	.34	.29	9/30	NIL	NIL	YES
★ 1360 Intel Corp. (NDO)	INTC	37.75	4 1 3	1.05	45- 55	(20- 45%)	14.8	2.8	2.55	1.04	75	9/30	◆.80	.64	12/31	.26	.24	YES
926 Inteliquent Inc. (NDO)	IQNT	16.89	3 3 5	1.35	25- 40	(50-135%)	13.1	3.8	1.29	.64	71	6/30	.26	.32	9/30	.16	.15	YES
1011 Inter Parfums (NDO)	IPAR	31.55	1 3 1	1.15	30- 50	(N- 60%)	27.0	2.0	1.17	.63	21	6/30	.19	.14	12/31	.15	.13	YES
832 Intercept Pharm. (NDO)	ICPT	140.81	3 4 4	1.55	215- 360	(55-155%)	NMF	NIL	d12.72	NIL	40	6/30	d3.14	d1.99	9/30	NIL	NIL	YES
1795 Intercontinental Exch. (NDO)	ICE	267.65	4 2 1	.80	375- 510	(40- 90%)	19.1	1.3	14.02	3.40	47	6/30	3.43	2.90	9/30	.85	.75	YES
593 InterDigital Inc. (NDO)	IDCC	78.65	4 3 3	.90	70- 105	(N- 35%)	25.7	1.5	3.06	1.20	77	6/30	1.14	.89	12/31	▲.30	.20	YES
1152 Interface Inc. 'A' (NDO)	TILE	16.20	4 3 4	1.25	20- 30	(25- 85%)	13.6	1.5	1.19	.24	96	6/30	.32	.33	9/30	▲.06	.05	YES
★ 1402 Int'l Business Mach. (NDO)	IBM	150.72	3 1 2	.90	175- 215	(15- 45%)	12.2	3.8	12.31	5.70	83	9/30	◆2.98	3.02	9/30	1.40	1.30	YES
569 Int'l Flavors & Frag. (NDO)	IFF	130.00	4 1 3	.90	115- 140	(N- 10%)	23.3	2.0	5.58	2.56	62	6/30	1.47	1.36	12/31	▲.64	.56	YES
1165 Int'l Paper (NDO)	IP	47.03	3 3 1	1.15	70- 110	(50-135%)	20.2	3.9	2.33	1.85	42	6/30	.10	.54	12/31	▲.463	.44	YES
2313 Int'l Speedway 'A' (NDO)	ISCA	31.55	3 3 4	1.05	35- 50	(10- 60%)	20.1	1.3	1.57	.41	85	8/31	.05	d.08	9/30	NIL	NIL	YES
2395 Interpublic Group (NDO)	IPG	22.57	3 3 3	1.15	30- 45	(35-100%)	22.6	2.9	1.00	.66	66	6/30	.38	.29	9/30	.15	.12	YES
1247 1361 Intersil Corp. 'A' (NDO)	ISIL	22.06	- 3 -	1.15	18- 25	(N- 15%)	31.1	2.2	.71	.48	75	6/30	.17	.16	9/30	.12	.12	YES
2588 Intuit Inc. (NDO)	INTU	107.15	3 2 3	1.10	135- 180	(25- 70%)	25.8	1.1	4.16	1.20	14	7/31	.08	d.05	9/30	.30	.25	YES
185 Intuitive Surgical (NDO)	ISRG	721.73	3 3 3	.85	625- 940	(N- 30%)	39.3	NIL	18.36	NIL	48	9/30	◆5.31	4.40	9/30	NIL	NIL	YES
216 Invacare Corp. (NDO)	IVC	10.35	2 4 4	1.25	17- 30	(65-190%)	NMF	0.5	d1.00	.05	39	6/30	d.33	d.23	9/30	.013	.013	YES
2559 Invesco Ltd. (NDO)	IVZ	29.59	3 3 4	1.40	45- 70	(50-135%)	12.2	3.8	2.43	1.12	58	6/30	.54	.60	9/30	.28	.27	YES
1796 Investment Techn. (NDO)	ITG	16.08	2 3 4	1.25	40- 55	(150-240%)	NMF	1.7	.13	.28	47	6/30	d.02	.32	9/30	.07	.07	YES
2661 1505 Investors Bancorp (NDO)	ISBC	11.81	4 3 3	.85	13- 20	(10- 70%)	19.4	2.0	.61	.24	29	6/30	.15	.13	9/30	.06	.05	YES
833 Ionis Pharm. (NDO)	IONS	28.62	▲ 1 4 4	1.20	45- 75	(55-160%)	NMF	NIL	d.98	NIL	40	6/30	d.47	.29	9/30	NIL	NIL	YES
927 Iridium Communications (NDO)	IRDM	8.40	3 4 5	.90	8- 14	(N- 65%)	9.3	NIL	.90	NIL	71	6/30	.22	.21	9/30	NIL	NIL	YES
1335 iRobot Corp. (NDO)	IRBT	44.91	3 3 3	1.15	50- 75	(10- 65%)	32.3	NIL	1.39	NIL	56	6/30	.17	.24	9/30	NIL	NIL	YES
397 Iron																		



PAGE NUMBERS

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RANKS

Industry Rank

Do Options Trade?

NAME OF STOCK	Ticker Symbol	Recent Price			RANKS			3-5 year Target Price Range and % appreciation potential	Current P/E Ratio	% Est'd Yield next 12 mos.	Est'd Earnings 12 mos. to 3-31-17	(f) Est'd Div'd next 12 mos.	LATEST RESULTS					Do Options Trade?
		Timeliness	Safety	Technical	Beta	Qtr. Ended	Earnings Per sh.						Year Ago	Qtr. Ended	Latest Div'd	Year Ago		
																	Qtr. Ended	
163 Joy Global	JOY	27.81	- 4	- 1.60	25- 40	(N- 45%)	71.3	0.1	.39	.04	55	7/31	.10	.54	12/31	.01	.20	YES
952 Juniper Networks	JNPR	22.85	4 3 4	1.30	30- 50	(30-120%)	14.3	1.8	1.60	.42	37	6/30	.39	.41	9/30	.10	.10	YES
2126 KAR Auction Svcs.	KAR	43.77	4 3 3	1.00	45- 70	(5- 60%)	24.9	2.8	1.76	1.22	95	6/30	.44	.41	12/31	.29	.27	YES
1127 KB Home	KBH	15.93	3 4 3	1.75	20- 35	(25-120%)	11.1	0.6	1.43	.10	90	8/31	.42	.23	12/31	.025	.025	YES
1839 1240 KBR, Inc.	KBR	14.82	2 3 3	1.60	18- 25	(20- 70%)	11.4	2.2	1.30	.32	35	6/30	.32	.43	12/31	.08	.08	YES
2656 KKR & Co. L.P.	KKR	13.72	1 3 3	1.40	30- 45	(120-230%)	4.4	4.7	3.15	.64	1	6/30	.23	.88	9/30	.16	.42	YES
1839 124 KLA-Tencor (NDQ)	KLAC	72.09	3 3 3	1.15	80- 120	(10- 65%)	13.9	3.0	5.19	2.16	23	6/30	1.77	.99	9/30	.52	.52	YES
1758 Kadant Inc.	KAI	51.31	5 3 2	1.10	55- 80	(5- 55%)	16.9	1.5	3.03	.76	36	6/30	.88	.78	12/31	.19	.17	YES
1759 Kaman Corp.	KAMN	42.26	2 3 1	1.00	50- 70	(20- 65%)	17.0	1.7	2.49	.72	36	6/30	.64	.63	12/31	.18	.18	YES
346 Kansas City South'n	KSU	92.58	3 3 3	1.15	105- 160	(15- 75%)	18.9	1.4	4.91	1.32	91	9/30	1.12	1.21	12/31	.33	.33	YES
2661 2109 Kate Spade & Co.	KATE	17.61	3 3 4	1.55	30- 50	(70-185%)	25.9	NIL	3.78	NIL	86	6/30	.11	.08	9/30	NIL	NIL	YES
1920 Kellogg	K	75.36	2 1 1	0.65	85- 105	(15- 40%)	20.4	2.8	3.70	2.09	49	6/30	.91	.92	9/30	▲.52	.50	YES
1640 Kelly Services 'A' (NDQ)	KELYA	18.72	3 3 2	1.20	25- 35	(35- 85%)	13.8	1.6	1.36	.30	78	6/30	.23	.18	9/30	.075	.05	YES
2561 Kemper Corp.	KMPR	38.70	2 3 3	1.00	40- 60	(5- 55%)	28.7	2.5	1.35	.96	58	6/30	.09	.13	9/30	.24	.24	YES
733 Kennametal Inc.	KMT	28.15	3 3 3	1.35	30- 45	(5- 60%)	23.7	2.8	1.19	.80	17	6/30	.44	.46	9/30	.20	.20	YES
2517 KeyCorp	KEY	12.63	3 3 4	1.15	14- 20	(10- 60%)	14.2	2.8	.89	.35	51	6/30	.23	.27	9/30	.085	.075	YES
1153 Kimball Int'l (NDQ)	KBAL	12.82	- 3	- 1.05	17- 25	(35- 95%)	16.6	1.9	.77	.24	96	6/30	.17	.12	12/31	▲.06	.055	YES
1195 Kimberly-Clark	KMB	120.54	2 1 2	.65	130- 160	(10- 35%)	21.9	3.1	5.50	3.68	28	6/30	1.56	d.83	12/31	.92	.88	YES
1533 Kimco Realty	KIM	28.00	3 3 2	.95	30- 40	(5- 45%)	32.6	3.9	.86	1.08	50	6/30	.46	.27	12/31	.255	.24	YES
606 Kinder Morgan Inc.	KMI	20.18	- 3	- 1.20	35- 55	(75-175%)	27.6	2.5	.73	.50	8	6/30	.15	.15	9/30	.125	.49	YES
1571 Kinross Gold	KGC	3.75	2 5 3	1.00	3- 6	(N- 60%)	25.0	NIL	.15	NIL	3	6/30	d.01	d.01	9/30	NIL	NIL	YES
335 Kirby Corp.	KEX	58.19	3 3 4	1.15	75- 110	(30- 90%)	24.9	NIL	2.34	NIL	53	6/30	.72	1.04	9/30	NIL	NIL	YES
324 Knight Transportation	KNX	27.24	5 3 3	1.05	35- 50	(30- 85%)	22.5	0.9	1.21	.24	94	6/30	.31	.39	9/30	.06	.06	YES
1418 Knoll Inc.	KNL	20.59	3 3 1	1.15	30- 45	(45-120%)	11.8	2.9	1.74	.60	20	6/30	.44	.36	9/30	.15	.12	YES
953 Knowles Corp.	KN	14.60	3 3 4	1.65	19- 30	(30-105%)	16.0	NIL	.91	NIL	37	6/30	.13	.08	9/30	NIL	NIL	YES
232 2143 Kohl's Corp.	KSS	43.04	1 2 4	.95	70- 95	(65-120%)	12.1	4.9	3.56	2.12	57	7/31	.77	.66	9/30	.50	.45	YES
430 Korea Fund	KF	34.39	- 3	.95	50- 75	(45-120%)	NMF	NIL	NMF	NIL	-	6/30	36.68(q)	44.80(q)	9/30	NIL	NIL	YES
1641 Korn/Ferry Int'l	KFY	20.92	4 3 4	1.30	40- 60	(90-185%)	10.0	1.9	2.10	.47	78	7/31	.52	.47	12/31	.10	.10	YES
1921 Kraft Heinz Co. (NDQ)	KHC	88.93	- 2	- NMF	85- 115	(N- 30%)	25.8	2.7	3.45	2.43	49	6/30	.85	.61	9/30	.575	.55	YES
2454 Krispy Kreme	SEE FINAL SUPPLEMENT - PAGE 2454																	
1950 Kroger Co.	KR	30.64	5 2 4	.80	40- 55	(30- 80%)	14.1	1.7	2.17	.51	79	7/31	.47	.44	12/31	.12	.105	YES
570 Kronos Worldwide	KRO	7.70	2 4 3	1.60	8- 12	(5- 55%)	59.2	7.8	.13	.60	62	6/30	.01	d1.38	9/30	.15	.15	YES
1388 Kulicke & Soffa (NDQ)	KLIC	12.93	3 3 3	1.20	16- 25	(25- 95%)	14.7	NIL	.88	NIL	67	6/30	.45	.33	9/30	NIL	NIL	YES
1986 Kyocera Corp. ADR(g)	KYO	48.57	3 2 3	1.00	70- 90	(45- 85%)	22.1	1.8	2.20	.88	52	6/30	.46	.77	9/30	.491	.484	YES
2214 L Brands	LB	72.09	4 3 4	1.00	75- 110	(5- 55%)	18.3	3.3	3.93	2.40	63	7/31	.87	.68	9/30	.60	.50	YES
715 L-3 Communic.	LLL	149.22	2 2 3	1.00	120- 165	(N- 10%)	19.0	1.9	7.87	2.80	59	6/30	1.88	1.46	12/31	◆.70	.65	YES
994 LKQ Corp. (NDQ)	LKQ	32.93	4 3 1	1.05	50- 75	(50-130%)	17.1	NIL	1.93	NIL	93	6/30	.55	.39	9/30	NIL	NIL	YES
1797 LPL Financial Hldgs. (NDQ)	LPLA	30.70	2 3 4	1.00	50- 70	(65-130%)	16.7	3.3	1.84	1.00	47	6/30	.53	.51	9/30	.25	.25	YES
1760 LSB Inds.	LXU	6.22	1 5 3	1.65	15- 30	(140-380%)	NMF	NIL	d.45	NIL	36	6/30	.20	.02	9/30	NIL	NIL	YES
2363 La Quinta Hldgs.	LQ	10.91	- 3	- NMF	20- 35	(85-220%)	19.5	NIL	.56	NIL	80	6/30	.21	d.04	9/30	NIL	NIL	YES
628 1154 La-Z-Boy Inc.	LZB	24.99	5 3 2	1.20	40- 60	(60-140%)	13.9	1.6	1.80	.40	96	7/31	.28	.27	9/30	.10	.10	YES
806 Laboratory Corp.	LH	138.31	3 1 3	.85	165- 200	(20- 45%)	15.3	NIL	9.03	NIL	70	6/30	2.31	2.09	9/30	NIL	NIL	YES
1839 1389 Lam Research (NDQ)	LRCX	99.47	4 3 3	1.15	75- 110	(N- 10%)	17.4	1.2	5.71	1.20	67	6/30	1.46	.74	9/30	.30	.30	YES
2396 Lamar Advertising (NDQ)	LAMR	64.55	4 3 3	1.15	80- 115	(25- 80%)	21.1	5.0	3.06	3.25	66	6/30	.84	.61	9/30	▲.76	.69	YES
1922 Lancaster Colony (NDQ)	LANC	134.82	2 1 3	.75	95- 115	(N- 7%)	29.0	1.6	4.65	2.12	49	6/30	1.12	.93	9/30	.50	.46	YES
125 Landauer, Inc.	LDR	44.60	1 3 2	1.00	50- 75	(10- 70%)	23.6	2.5	1.89	1.10	23	6/30	.58	.42	12/31	.275	.275	YES
2364 Las Vegas Sands	LVS	57.45	3 3 3	1.40	70- 105	(20- 85%)	26.1	5.0	2.20	2.88	80	6/30	.41	.59	9/30	.72	.65	YES
1362 Lattice Semiconductor (NDQ)	LSCC	6.41	3 4 3	1.30	10- 16	(55-150%)	20.7	NIL	.31	NIL	75	6/30	NIL	d.07	9/30	NIL	NIL	YES
1012 Lauder (Estee)	EL	87.67	4 2 3	.95	95- 130	(10- 50%)	28.3	1.4	3.10	1.20	21	6/30	.25	.40	9/30	.30	.24	YES
2562 Lazard Ltd.	LAZ	34.75	3 3 3	1.50	55- 85	(60-145%)	11.2	4.4	3.10	1.52	58	6/30	.61	2.82	9/30	.38	.35	YES
995 Lear Corp.	LEA	112.84	5 3 3	1.25	155- 230	(35-105%)	8.3	1.1	13.55	1.20	93	6/30	3.66	2.81	9/30	.30	.25	YES
1155 Leggett & Platt	LEG	45.77	4 2 1	1.10	55- 70	(20- 55%)	18.2	3.0	2.52	1.36	96	6/30	.66	.53	12/31	.34	.32	YES
2563 Legg Mason	LM	31.70	1 3 3	1.40	70- 105	(120-230%)	13.3	2.8	2.39	.88	58	6/30	.31	.84	12/31	.22	.20	YES
399 Leidos Hldgs.	LDOS	41.70	- 3	- 1.00	45- 70	(10- 70%)	12.9	3.1	3.23	1.28	69	6/30	.68	.73	9/30	.32	.32	YES
1128 Lennar Corp.	LEN	41.91	5 3 3	1.40	55- 85	(30-105%)	10.6	0.4	3.96	.16	90	8/31	1.01	.96	12/31	.04	.04	YES
1715 Lennox Int'l	LII	151.71	4 3 3	1.10	145- 215	(N- 40%)	22.2	1.1	6.83	1.72	68	9/30	2.33	1.82	12/31	.43	.36	YES
1761 Leucadia National	LUK	18.96	1 3 4	1.35	30- 50	(60-165%)	37.2	1.3	.51	.25	36	6/30	.15	.04	9/30	.063	.063	YES
595 Level 3 Communic.	LVLTL	47.07	5 4 3	1.25	55- 90	(15- 90%)	26.3	NIL	1.79	NIL	77	6/30	.41	d.04	9/30	NIL	NIL	YES
1840 1419 Lexmark Int'l 'A'	LXK	39.95	- 3	- 1.15	35- 50	(N- 25%)	13.8	3.6	2.90	1.44	20	6/30	.67	.97	9/30	.36	.36	YES
1209 Liberty All-Star	USA	5.07	- 2	- 3.10	7- 10	(40- 95%)	NMF	9.5	NMF	.48	-	6/30	5.96(q)	6.65(q)	9/30	.12	.14	YES
1023 Liberty Global plc (NDQ)	LBTYA	31.24	▲3 3 4	1.20	35- 55	(10- 75%)	48.1	NIL	.65	NIL	73	6/30	.23	d.53	9/30	NIL	NIL	YES

PAGE NUMBERS

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		Timeliness	Safety	Technical	Beta	Qtr. Ended	Earnings Per sh.						Year Ago	Qtr. Ended	Latest Div'd		Year Ago	
																		Qtr. Ended
1037 2215 lululemon athletica (NDQ)	LULU	56.30	3 3 1	1.05	85- 130	(50-130%)	25.0	NIL	2.25	NIL	63	7/31	.38	.34	9/30	NIL	NIL	YES
1141 Lumber Liquidators	LL	18.97	- 5 -	1.60	25- 50	(30-165%)	NMF	NIL	d.80	NIL	72	6/30	d.45	d.75	9/30	NIL	NIL	YES
2182 Luxottica Group ADR(g)	LUX	46.71	3 3 4	.95	70- 105	(50-125%)	23.1	2.1	2.02	.99	61	6/30	1.23(p)	.72	9/30	NIL	NIL	YES
571 LyondellBasell Inds.	LYB	80.18	5 3 5	1.40	105- 155	(30- 95%)	8.2	4.2	9.78	3.40	62	6/30	2.56	2.82	9/30	.85	.78	YES
2518 M&T Bank Corp.	MTB	115.27	2 2 3	.95	140- 190	(20- 65%)	14.3	2.4	8.07	2.80	51	9/30	d.210	1.92	9/30	.70	.70	YES
1129 M.D.C. Holdings	MDC	24.37	3 3 3	1.40	30- 45	(25- 85%)	11.3	4.1	2.15	1.00	90	6/30	.55	.41	9/30	.25	.25	YES
534 MDU Resources	MDU	25.04	2 2 3	1.00	30- 40	(20- 60%)	21.2	3.0	1.18	.75	13	6/30	.24	.15	9/30	.188	.183	YES
1210 MFS Multimarket	MMT	5.90	- 4 3	.60	5- 8	(N- 35%)	NMF	8.1	NMF	.48	-	4/30	6.64(q)	7.21(q)	9/30	.135	.14	YES
913 MGE Energy (NDQ)	MGEE	55.81	1 1 3	.70	95- 55	(N- N%)	24.0	2.2	2.33	1.23	16	6/30	.47	.39	9/30	▲.308	.295	YES
2565 MGIC Investment	MTG	8.44	5 5 4	2.00	16- 30	(90-255%)	6.9	NIL	1.23	NIL	58	9/30	d.25	.29	9/30	NIL	NIL	YES
2365 MGM Resorts Int'l	MGM	25.86	3 4 3	1.65	25- 40	(N- 55%)	34.0	NIL	.76	NIL	80	6/30	.83	.17	9/30	NIL	NIL	YES
1390 MKS Instruments (NDQ)	MKSI	48.95	▼3 3 3	1.05	50- 70	(N- 45%)	26.9	1.4	1.82	.68	67	6/30	.37	.62	9/30	.17	.17	YES
2426 MRC Global	MRC	15.91	2 4 3	1.40	18- 30	(15- 90%)	NMF	NIL	d.30	NIL	5	6/30	d.21	.22	9/30	NIL	NIL	YES
1718 MSA Safety	MSA	57.00	2 3 3	1.25	55- 85	(N- 50%)	23.7	2.4	2.41	1.34	68	6/30	.77	.62	9/30	.33	.32	YES
1719 MSC Industrial Direct	MSM	71.04	▼2 2 2	.95	100- 135	(40- 90%)	18.6	2.4	3.81	1.72	68	5/31	1.05	1.03	9/30	.43	.40	YES
2340 MSG Networks	MSGN	18.65	- 3 -	NMF	30- 45	(60-140%)	8.9	NIL	2.09	NIL	76	6/30	.57	.60	9/30	NIL	NIL	YES
126 MTS Systems (NDQ)	MTSC	46.13	2 3 4	1.05	55- 80	(20- 75%)	27.6	2.6	1.67	1.20	23	6/30	.46	.72	9/30	.30	.30	YES
717 MacDonald Dettwiler (TSE)	MDA.TO	79.76	3 2 3	.75	90- 125	(15- 55%)	20.5	1.9	3.90	1.48	59	6/30	.69	1.20	9/30	.37	.37	YES
1535 Macerich Comp. (The)	MAC	76.50	3 3 2	.90	80- 120	(5- 55%)	57.1	3.7	1.34	2.84	50	6/30	.31	.09	9/30	.68	.65	YES
1536 Mack-Cali R'ty	CLI	26.59	1 3 3	.90	20- 35	(N- 30%)	NMF	2.3	.14	.60	50	6/30	.54	.40	12/31	.15	.15	YES
400 Macquarie Infrastructure	MIC	83.20	3 3 3	.95	75- 115	(N- 40%)	68.2	6.4	1.22	5.32	69	6/30	.24	d.80	9/30	▲1.25	1.11	YES
232 2144 Macy's Inc.	M	35.20	4 3 4	1.05	40- 60	(15- 70%)	10.4	4.3	3.40	1.53	57	7/31	.54	.64	9/30	▲.378	.36	YES
2158 Madden (Steven) Ltd. (NDQ)	SHOO	33.24	3 3 4	1.00	35- 55	(5- 65%)	16.5	NIL	2.02	NIL	81	6/30	.42	.40	9/30	NIL	NIL	YES
2341 Madison Square Garden	MSG	164.64	- 3 -	NMF	200- 300	(20- 80%)	NMF	NIL	d.56	NIL	76	6/30	d2.39	NA	12/31	NIL	NIL	YES
620 Magellan Midstream	MMP	71.48	3 3 3	1.00	90- 135	(25- 90%)	19.9	4.8	3.59	3.43	6	6/30	.82	.78	9/30	▲.82	.74	YES
997 Magna Int'l 'A'	MGA	40.12	4 3 4	1.30	75- 110	(85-175%)	7.5	2.5	5.33	1.00(h)	93	6/30	1.41	1.19	9/30	.25	.22	YES
2026 Maiden Hldgs. Ltd. (NDQ)	MHL	13.80	▲3 3 4	.90	19- 30	(40-115%)	7.6	4.3	1.82	.59	33	6/30	.39	.27	12/31	.14	.13	YES
2662 1618 Mallinckrodt plc	MNK	64.17	4 3 3	1.30	115- 175	(80-175%)	11.7	NIL	5.48	NIL	45	6/30	1.79	.47	9/30	NIL	NIL	YES
★ 2617 Manhattan Assoc. (NDQ)	MANH	59.01	4 3 3	1.10	65- 95	(N- 60%)	34.7	NIL	1.70	NIL	64	9/30	▲.47	.38	9/30	NIL	NIL	YES
929 Manitoba Telecom Svcs.(TSE)	MBT.TO	37.12	- 4 3 -	.60	25- 40	(N- 10%)	36.4	3.5	1.02	1.30	71	6/30	.15	.13	9/30	.325	.325	YES
164 Manitowoc Co.	MTW	4.65	- 4 -	NMF	6- 9	(30- 95%)	33.2	1.7	.14	.08	55	6/30	.04	.22	9/30	NIL	NIL	YES
1642 ManpowerGroup Inc.	MAN	71.77	3 3 5	1.45	90- 135	(25- 90%)	11.8	2.5	6.07	1.78	78	6/30	1.60	1.33	9/30	NIL	NIL	YES
2618 ManTech Int'l 'A' (NDQ)	MANT	39.18	2 3 3	1.05	35- 50	(N- 30%)	26.8	2.1	1.46	.84	64	6/30	.39	.33	9/30	.21	.21	YES
1556 Manulife Fin'l	MFC	14.68	3 3 5	1.35	17- 25	(15- 70%)	10.8	3.9	1.36	.57	22	6/30	.31	.29	9/30	.143	.129	YES
2409 Marathon Oil Corp.	MRO	14.20	2 3 3	1.70	19- 30	(35-110%)	NMF	1.4	d1.28	.20	9	6/30	d.23	.23	9/30	.05	.21	YES
510 Marathon Petroleum	MPC	42.73	3 3 4	1.40	50- 70	(15- 65%)	12.6	3.5	3.40	1.48	18	6/30	1.51	1.51	9/30	▲.36	.32	YES
2366 Marcus Corp.	MCS	25.27	4 3 3	1.00	25- 40	(N- 60%)	24.1	1.8	1.05	.45	80	6/30	.34	NA	9/30	.113	.105	YES
2183 MarineMax	HZO	20.85	3 4 3	1.25	25- 40	(20- 90%)	20.9	NIL	1.00	NIL	61	6/30	.57	.53	9/30	NIL	NIL	YES
766 Markel Corp.	MKL	911.44	3 1 3	.75	860-1050	(N- 15%)	31.1	NIL	29.30	NIL	46	6/30	4.18	6.27	9/30	NIL	NIL	YES
1798 MarketAxess Holdings (NDQ)	MKTX	154.75	3 3 1	.85	125- 190	(N- 25%)	45.4	0.7	3.41	1.04	47	6/30	.88	.64	9/30	.26	.20	YES
2367 Marriott Int'l	MAR	67.83	3 3 4	1.15	95- 145	(40-115%)	17.6	1.8	3.85	1.20	80	6/30	.96	.87	9/30	.30	.25	YES
2566 Marsh & McLennan	MMC	65.14	4 1 2	.90	75- 90	(15- 40%)	18.9	2.1	3.44	1.36	58	6/30	.90	.77	12/31	.34	.31	YES
1112 Martin Marietta	MLM	178.21	3 3 3	1.15	210- 320	(20- 80%)	23.1	0.9	7.71	1.68	89	6/30	1.90	1.22	9/30	▲.42	.40	YES
954 Marvell Technology (NDQ)	MRVL	13.01	1 3 3	1.05	14- 20	(10- 55%)	24.1	1.8	.54	.24	37	7/31	.18	.07	12/31	.06	.12	YES
1113 Masco Corp.	MAS	33.47	3 3 3	1.40	35- 50	(5- 50%)	20.7	1.2	1.62	.40	89	6/30	.46	.38	12/31	▲.10	.095	YES
218 Masimo Corp. (NDQ)	MASI	59.08	3 3 3	1.10	55- 85	(N- 45%)	29.2	NIL	2.02	NIL	39	6/30	.57	.36	9/30	NIL	NIL	YES
1156 Masonite Int'l	DOOR	59.70	▼4 3 2	.95	50- 70	(N- 15%)	28.7	NIL	2.08	NIL	96	6/30	1.06	.43	9/30	NIL	NIL	YES
233 1241 MasTec	MTZ	29.70	3 4 3	1.45	30- 50	(N- 70%)	17.2	NIL	1.73	NIL	35	6/30	.33	1.0	9/30	NIL	NIL	YES
2567 MasterCard Inc.	MA	101.73	3 1 3	1.05	115- 140	(15- 40%)	27.2	0.7	3.74	.76	58	6/30	.89	.81	12/31	.19	.16	YES
1588 Materion Corp.	MTRN	29.55	3 3 4	1.40	30- 45	(N- 50%)	20.0	1.3	1.48	.38	2	6/30	.31	.43	9/30	.095	.09	YES
336 Matson, Inc.	MATX	40.38	5 3 5	1.15	45- 70	(10- 75%)	19.0	1.9	2.12	.76	53	6/30	.42	.56	9/30	▲.19	.18	YES
★ 2315 Mattel, Inc. (NDQ)	MAT	30.71	2 2 2	.85	35- 45	(15- 45%)	22.3	4.9	1.38	1.52	85	6/30	d.06	d.04	9/30	.38	.38	YES
1834 Matthews Int'l (NDQ)	MATW	59.59	▼3 3 2	1.10	55- 85	(N- 45%)	17.8	1.0	3.35	.60	34	6/30	.97	.88	9/30	.15	.13	YES
1246 Mattress Firm Hldg.	MFRM				SEE FINAL SUPPLEMENT - PAGE 1246													
1364 Maxim Integrated (NDQ)	MXIM	38.90	▼3 3 3	1.05	45- 65	(15- 65%)	20.4	3.4	1.91	1.32	75	6/30	.49	.43	12/31	▲.30	.28	YES
401 MAXIMUS Inc.	MMS	54.18	3 3 2	.95	75- 115	(40-110%)	18.0	0.3	3.01	.18	69	6/30	.75	.62	12/31	◆.045	.045	YES
1923 McCormick & Co.	MKC	94.85	2 1 2	.75	90- 110	(N- 15%)	24.6	1.8	3.86	1.72	49	8/31	1.03	.85	12/31	.43	.40	YES
1762 McDermott Int'l	MDR	5.39	3 5 3	1.80	6- 10	(10- 85%)	NMF	NIL	.01	NIL	36	6/30	.07	.04	9/30	NIL	NIL	YES
2459 365 McDonald's Corp.	MCD	111.25	2 1 3	.75	110- 135	(N- 20%)	19.5	3.4	5.70	3.76	87	6/30	1.45	1.26	12/31	▲.94	.89	YES
219 McKesson Corp.	MCK	162.10	3 1 3	.95	275- 335	(70-105%)	11.7	0.7	13.90	1.12	39	6/30	3.50	3.14	12/31	.28	.28	YES
1924 Mead Johnson Nutrition	MJN	80.11	1 2 4	.90	95- 130	(20- 60%)	23.3	2.1	3.44	1.65	49	6/30	.83	.80	12/31	.413	.413	YES
2342 Media General	MEG	17.65	- 5 -	1.10	17- 30	(N- 70%)	15.3	NIL	1.15	NIL	76	6						



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RANKS

Industry Rank

Do Options Trade?

NAME OF STOCK	Ticker Symbol	Recent Price			Safety	Technical	Beta	3-5 year Target Price and % appreciation potential	Current P/E Ratio	% Est'd Yield next 12 mos.	Est'd Earnings 12 mos. to 3-31-17	(f) Est'd Div'd next 12 mos.	LATEST RESULTS								
		Timeliness	↓	↑									Qtr. Ended	Earnings Per sh.	Year Ago	Qtr. Ended	Latest Div'd	Year Ago			
																			4	3	4
127 Mettler-Toledo Int'l	MTD	410.07	▼	4	3	4	1.15	320- 480	(N- 15%)	29.2	NIL	14.04	NIL	23	6/30	2.93	2.73	9/30	NIL	NIL	YES
431 Mexico Fund	MXF	16.47	-	4	2	1.10	18- 30	(10- 80%)	NMF	0.3	NMF	.05	-	-	7/31	18.39(q)	21.13(q)	9/30	NIL	NIL	YES
2110 Michael Kors Hldgs.	KORS	47.52	3	3	4	1.00	75- 110	(60-130%)	10.4	NIL	4.55	NIL	86	6/30	.83	.87	9/30	NIL	NIL	YES	
2184 Michaels Cos. (The)	(NDQ) MIK	23.53	4	3	2	1.10	35- 55	(50-135%)	11.9	NIL	1.98	NIL	61	7/31	.17	.17	9/30	NIL	NIL	YES	
1366 Microchip Technology	(NDQ) MCHP	58.86	4	2	2	1.10	60- 80	(N- 35%)	17.8	2.4	3.30	1.44	75	6/30	.84	.69	9/30	.36	.358	YES	
1367 Micon Technology	(NDQ) MU	17.41	4	3	4	1.70	17- 25	(N- 45%)	NMF	NIL	d.35	NIL	75	8/31	d.16	.42	9/30	NIL	NIL	YES	
1368 Microsemi Corp.	(NDQ) MSCC	37.92	5	3	2	1.30	60- 85	(60-125%)	11.2	NIL	3.38	NIL	75	6/30	.73	.68	9/30	NIL	NIL	YES	
2590 Microsoft Corp.	(NDQ) MSFT	57.66	2	1	3	1.00	65- 80	(15- 40%)	20.0	2.7	2.88	1.56	14	6/30	.69	.62	12/31	▲.36	.36	YES	
232 1720 Middleby Corp. (The)	(NDQ) MIDD	117.68	4	3	1	1.10	115- 170	(N- 45%)	23.6	NIL	4.99	NIL	68	6/30	1.28	1.00	9/30	NIL	NIL	YES	
1787 Middlesex Water	(NDQ) MSEX	33.79	3	2	2	.70	25- 35	(N- 5%)	23.6	2.4	1.43	.80	43	6/30	.36	.31	9/30	.199	.193	YES	
1427 1157 Miller (Herman)	(NDQ) MLHR	27.30	4	3	1	1.20	35- 55	(30-100%)	11.7	2.5	2.34	.68	96	8/31	.60	.56	9/30	.148	.14	YES	
573 Minerals Techn.	MTX	68.65	5	3	3	1.35	85- 125	(25- 80%)	15.0	0.3	4.58	.20	62	6/30	1.20	1.18	9/30	.05	.05	YES	
402 Mobile Mini	(NDQ) MINI	28.80	3	3	4	1.30	45- 65	(55-125%)	21.8	2.8	1.32	.82	69	6/30	.25	.28	9/30	.206	.187	YES	
999 Modine Mfg.	MOD	10.65	4	4	1	1.45	12- 20	(15- 90%)	13.3	NIL	.80	NIL	93	6/30	.21	.14	9/30	NIL	NIL	YES	
1158 Mohawk Inds.	MHK	195.57	4	3	1	1.25	220- 325	(10- 65%)	15.6	NIL	12.52	NIL	96	6/30	3.47	2.69	9/30	NIL	NIL	YES	
1976 Molson Coors Brewing	TAP	110.11	-	2	-	.90	95- 130	(N- 20%)	32.7	1.5	3.37	1.64	38	6/30	.81	1.23	9/30	.41	.41	YES	
845 1925 Mondelez Int'l	(NDQ) MDLZ	42.12	4	2	3	1.05	45- 65	(5- 55%)	21.8	1.9	1.93	.78	49	6/30	.44	.47	12/31	▲.19	.17	YES	
1369 Monolithic Power Systems	(NDQ) MPWR	76.98	3	3	3	1.25	85- 125	(10- 60%)	57.9	1.0	1.33	.80	75	6/30	.27	.19	9/30	.20	.20	YES	
2128 Monro Muffler Brake	(NDQ) MNRO	59.80	▲	3	5	8.00	65- 95	(10- 60%)	27.8	1.1	2.15	.68	95	6/30	.50	.57	9/30	.17	.15	YES	
1247 2450 Monsanto Co.	MON	102.67	-	2	-	1.00	140- 190	(35- 85%)	21.0	2.3	4.89	2.40	88	8/31	.07	d.03	9/30	.54	.49	YES	
1977 Monster Beverage	(NDQ) MNST	146.72	3	3	3	.90	120- 180	(N- 25%)	41.3	NIL	3.55	NIL	38	6/30	.90	1.26	9/30	NIL	NIL	YES	
233 2357 Monster Worldwide	MWW	3.46	-	5	-	1.50	5- 8	(45-130%)	18.2	NIL	1.19	NIL	66	6/30	d.02	d.02	9/30	NIL	NIL	YES	
451 Moody's Corp.	MCO	107.80	3	3	3	1.20	95- 145	(N- 35%)	22.6	1.4	4.77	1.48	74	6/30	1.30	1.29	12/31	◆.37	.34	YES	
718 Moog Inc. 'A'	MOGA	57.63	3	3	4	1.25	75- 115	(30-100%)	15.8	NIL	3.64	NIL	59	6/30	1.00	.94	9/30	NIL	NIL	YES	
1806 Morgan Stanley	MS	32.32	▲	3	4	1.60	60- 90	(85-180%)	9.9	2.5	3.25	.80	10	9/30	◆.80	.49	12/31	◆.20	.15	YES	
1602 Mosaic Company	MOS	23.39	2	3	3	1.35	35- 55	(50-135%)	37.7	5.3	6.22	1.23	4	6/30	d.03	1.08	12/31	◆.275	.275	YES	
955 Motorola Solutions	MSI	73.80	4	1	2	.90	105- 125	(40- 70%)	15.8	2.4	4.62	1.80	37	6/30	1.03	.68	12/31	.41	.34	YES	
630 2185 Movado Group	MOV	22.10	3	3	4	1.25	45- 65	(105-195%)	14.8	2.4	▼1.49	.52	61	7/31	.27	.50	9/30	.13	.11	YES	
734 Mueller Inds.	MLI	31.13	3	3	1	1.15	35- 55	(10- 75%)	16.4	1.3	1.90	.40	17	6/30	.49	.59	9/30	.10	.075	YES	
1721 Mueller Water Prod.	MWA	12.49	3	3	3	1.30	15- 20	(20- 60%)	23.1	1.0	.54	.12	68	6/30	.18	.15	9/30	.03	.02	YES	
511 Murphy Oil Corp.	MUR	28.20	2	3	3	1.45	50- 70	(75-150%)	NMF	3.5	d1.44	1.00	18	6/30	.02	d.51	12/31	.25	.35	YES	
2186 Murphy USA Inc.	MUSA	69.23	4	3	2	.90	85- 125	(25- 80%)	14.6	NIL	4.73	NIL	61	6/30	1.17	.56	9/30	NIL	NIL	YES	
1763 Myers Inds.	MYE	12.50	3	3	3	1.15	17- 25	(35-100%)	18.1	4.5	.69	.56	36	6/30	.19	.35	12/31	.135	.135	YES	
2032 1621 Mylan N.V.	(NDQ) MYL	37.39	3	3	4	1.15	80- 120	(115-220%)	10.1	NIL	3.72	NIL	45	6/30	.33	.32	9/30	NIL	NIL	YES	
233 836 Myriad Genetics	(NDQ) MYGN	19.91	3	3	4	.85	35- 55	(75-175%)	15.7	NIL	1.27	NIL	40	6/30	.32	.26	9/30	NIL	NIL	YES	
845 1114 NCI Bldg. Sys.	NCS	14.35	3	4	2	1.35	20- 35	(40-145%)	17.5	NIL	.82	NIL	89	7/31	.32	.10	9/30	NIL	NIL	YES	
1338 NCR Corp.	NCR	30.29	3	3	2	1.40	50- 75	(65-150%)	10.0	NIL	3.04	NIL	56	6/30	.72	.66	9/30	NIL	NIL	YES	
735 NN Inc.	(NDQ) NNBR	18.04	▼	4	4	1.60	30- 45	(65-150%)	9.9	1.6	1.83	.28	17	6/30	.46	.36	9/30	.07	.07	YES	
1226 NRG Energy	NRG	11.70	2	3	4	1.15	15- 25	(30-115%)	NMF	1.0	d.59	.12	26	6/30	d.61	d.06	12/31	◆.03	.145	YES	
1131 NVR, Inc.	NVR	1602.40	4	2	1	.95	1530-2070	(N- 30%)	15.4	NIL	104.21	NIL	90	6/30	22.01	21.91	9/30	NIL	NIL	YES	
1649 1371 NXP Semiconductors NV(NDQ)	NXPI	101.65	4	3	3	1.40	130- 190	(30- 85%)	16.4	NIL	6.21	NIL	75	6/30	1.39	1.44	9/30	NIL	NIL	YES	
2427 Nabors Inds.	NBR	13.14	3	4	5	1.85	16- 25	(20- 90%)	NMF	1.8	d1.46	24-NIL	5	6/30	d.26	d.14	9/30	.06	.06	YES	
1799 Nasdaq, Inc.	(NDQ) NDAQ	66.21	3	3	2	1.00	70- 100	(5- 50%)	17.2	1.9	3.84	1.28	47	6/30	.91	.83	9/30	.32	.25	YES	
2519 Nat'l Bank of Canada	(TSE) NA.TO	45.68b	3	2	2	.75	55- 75	(20- 65%)	9.9	5.0	4.60	2.28	51	7/31	1.31(b)	1.28(b)	12/31	.55(b)	.52(b)	YES	
627 1978 National Beverage	(NDQ) FIZZ	49.50	3	3	3	.80	30- 50	(N- N%)	29.1	NIL	1.70	NIL	38	7/31	.62	.37	9/30	NIL	NIL	YES	
2398 National CineMedia	(NDQ) NCMJ	14.10	3	3	3	.95	20- 35	(40-150%)	17.6	6.2	.80	.88	66	6/30	.11	.17	9/30	.22	.22	YES	
535 National Fuel Gas	NFG	52.93	1	3	1	1.05	80- 115	(50-115%)	NMF	3.1	.07	1.62	13	6/30	.10	d3.44	12/31	.405	.395	YES	
128 National Instruments	(NDQ) NATI	27.77	2	3	4	1.10	35- 55	(25-100%)	33.9	2.9	.82	.80	23	6/30	.15	.19	9/30	.20	.19	YES	
2428 National Oilwell Varco	NOV	36.66	1	3	4	1.25	35- 55	(N- 50%)	NMF	0.5	d1.24	.20	5	6/30	d.30	.77	9/30	.05	.46	YES	
1764 National Presto Ind.	NPK	85.90	3	3	3	.95	75- 110	(N- 30%)	15.4	5.9	5.56	5.05	36	6/30	1.19	1.31	9/30	NIL	NIL	YES	
1589 Natural Resource	NRP	30.18	-	5	-	1.35	45- 80	(50-165%)	4.0	6.0	7.51	1.80-NIL	2	6/30	3.82	2.82	9/30	.45	.90	YES	
1646 221 Natus Medical	(NDQ) BABY	39.70	4	3	2	1.05	45- 65	(15- 65%)	27.8	NIL	1.43	NIL	39	9/30	◆.40	.33	9/30	NIL	NIL	YES	
2187 Nautilus Inc.	NLS	20.50	4	4	1	1.10	20- 35	(N- 70%)	17.1	NIL	1.20	NIL	61	6/30	.12	.07	9/30	NIL	NIL	YES	
2568 Navient Corp.	(NDQ) NAVI	13.61	-	3	-	NMF	20- 30	(45-120%)	7.3	4.7	1.87	.64	58	9/30	◆.50	.47	12/31	.16	.16	YES	
403 Navistar Consulting	NCI	19.69	3	3	3	1.10	20- 35	(N- 80%)	16.0	NIL	1.23	NIL	69	6/30	.33	.26	9/30	NIL	NIL	YES	
1037 165 Navistar Int'l	NAV	22.36	3	5	4	2.00	14- 25	(N- 10%)	55.9	NIL	4.00	NIL	55	7/31	d.42	d.37	9/30	NIL	NIL	YES	
1167 Neenah Paper	NP	80.65	4	3	3	1.05	85- 130	(5- 60%)	18.6	1.6	4.34	1.32	42	6/30	1.19	.97	9/30	.33	.30	YES	
1622 Nektar Therapeutics	(NDQ) NKTR	14.08	▼	5																	

PAGE NUMBERS

Bold type refers to Ratings and Reports

RANKS

Industry Rank

Do Options Trade?

NAME OF STOCK	Ticker Symbol	Recent Price			Safety			Technical			3-5 year Target Price Range and % appreciation potential	Current P/E Ratio	% Est'd Yield next 12 mos.	Est'd Earnings 12 mos. to 3-31-17	(f) Est'd Div'd next 12 mos.	LATEST RESULTS						Do Options Trade?
		Timeliness	Beta	3-5 year Target Price Range and % appreciation potential	Current P/E Ratio	% Est'd Yield next 12 mos.	Est'd Earnings 12 mos. to 3-31-17	(f) Est'd Div'd next 12 mos.	Qtr. Ended							Year Ago						
									Qtr. Ended	Earnings Per sh.						Year Ago	Qtr. Ended	Latest Div'd	Year Ago			
547 NiSource Inc.	NI	23.06	-	3	-	NMF	18- 25	(N- 10%)	22.2	2.9	1.04	.66	41	6/30	.09	d.23	12/31	.165	.155	YES		
108 Nissan Motor ADR(g)	(PNK) NSANY	19.22	▲	3	1	1.05	25- 35	(30- 80%)	7.7	4.2	2.50	.80	60	6/30	.64	.67	9/30	NIL	.265			
2429 Noble Corp. plc	NE	5.77	2	4	4	1.60	14- 25	(145-335%)	NMF	1.4	d.32	.08	5	6/30	.01	.64	9/30	.02	.375	YES		
2410 Noble Energy	NBL	35.09	1	3	4	1.45	50- 80	(40-130%)	NMF	1.1	d.88	.40	9	6/30	d.73	d.28	9/30	.10	.18	YES		
958 Nokia Corp. ADR	NOK	5.02	3	3	3	1.30	7- 11	(40-120%)	22.8	3.4	.22	.17	37	6/30	.03	.10	9/30	.29	NIL	YES		
1722 Nordson Corp.	(NDQ) NDSN	96.29	3	3	2	1.30	95- 145	(N- 50%)	20.1	1.2	4.80	1.11	68	7/31	1.47	1.14	9/30	▲.27	.24	YES		
2145 Nordstrom, Inc.	JWN	53.27	3	3	4	1.00	45- 70	(N- 30%)	18.8	2.8	2.84	1.51	57	7/31	.67	.93	9/30	.37	.37	YES		
347 Norfolk Southern	NSC	94.98	3	2	3	1.10	100- 130	(5- 35%)	16.8	2.5	5.66	2.36	91	6/30	1.36	1.41	9/30	.59	.59	YES		
785 Northern Trust Corp.	(NDQ) NTRS	70.95	3	3	4	1.10	80- 120	(15- 70%)	16.3	2.1	4.34	1.52	19	9/30	◆1.08	.96	3/31	◆.38	.36	YES		
1227 Northland Power	(TSE) NPI.TO	23.60	3	3	3	.70	30- 40	(25- 70%)	28.8	4.6	.82	1.08	26	6/30	.20	.50	9/30	.27	.27	YES		
719 Northrop Grumman	NOC	219.44	5	1	4	.90	210- 255	(N- 15%)	19.9	1.6	11.02	3.60	59	6/30	2.85	2.74	9/30	.90	.80	YES		
1507 Northwest Bancshares	(NDQ) NWBI	15.60	1	2	3	.75	16- 20	(5- 30%)	26.4	3.8	.59	.60	29	6/30	d.07	.17	9/30	.15	.14	YES		
548 Northwest Nat. Gas	NWN	59.37	3	1	2	.65	50- 60	(N- N%)	26.7	3.2	2.22	1.88	41	6/30	.07	.08	12/31	▲.47	.468	YES		
2231 NorthWestern Corp.	NWE	56.10	3	3	3	.70	45- 70	(N- N%)	15.1	3.7	▲3.71	2.06	31	6/30	.73	.38	9/30	.50	.48	YES		
2316 Norwegian Cruise Line	(NDQ) NCLH	38.25	4	3	5	1.15	75- 110	(95-190%)	10.4	NIL	3.68	NIL	85	6/30	.64	.69	9/30	NIL	NIL	YES		
1623 Novartis AG ADR	NVS	76.31	2	1	3	.85	105- 125	(40- 65%)	23.5	3.6	3.25	2.72	45	6/30	.76	.77	9/30	NIL	NIL	YES		
233 1624 Novo Nordisk ADR(g)	NVO	40.56	3	2	3	.90	65- 85	(60-110%)	16.9	2.7	2.40	1.10	45	6/30	.59	.47	9/30	.453	NIL	YES		
1013 Nu Skin Enterprises	NUS	63.72	▼	3	4	1.20	55- 90	(N- 40%)	21.0	2.4	3.03	1.51	21	6/30	.79	.75	9/30	.355	.35	YES		
2591 Nuance Communic.	(NDQ) NUAN	13.79	1	3	3	1.10	20- 30	(45-120%)	NMF	NIL	.02	NIL	14	6/30	d.04	d.13	9/30	NIL	NIL	YES		
745 Nucor Corp.	NUE	47.15	2	3	2	1.25	65- 100	(40-110%)	19.4	3.2	2.43	1.50	7	6/30	.73	.39	12/31	.375	.373	YES		
1927 NutriSystem Inc.	(NDQ) NTRI	30.70	2	3	3	1.00	30- 45	(N- 45%)	26.5	2.3	1.16	.70	49	6/30	.54	.41	9/30	.175	.175	YES		
188 NuVasive, Inc.	(NDQ) NUVA	67.65	3	3	3	1.15	65- 100	(N- 50%)	52.9	NIL	1.28	NIL	48	6/30	.57	.20	9/30	NIL	NIL	YES		
1211 Nuveen Muni Value Fund	NUV	10.00	-	1	3	.40	9- 11	(N- 10%)	NMF	4.0	NMF	.40	-	4/30	10.48(q)	10.29(q)	9/30	.098	.098	YES		
1370 NVIDIA Corp.	(NDQ) NVDA	66.61	3	3	3	1.10	40- 55	(N- N%)	38.3	0.7	1.74	.46	75	7/31	.40	.05	9/30	.115	.098	YES		
914 OGE Energy	OGE	30.68	2	2	3	.90	35- 45	(15- 45%)	16.9	4.0	1.82	1.22	16	6/30	.35	.44	12/31	▲.303	.275	YES		
461 129 OSI Systems	(NDQ) OSIS	65.86	3	3	4	.95	75- 110	(15- 65%)	31.4	NIL	2.10	NIL	23	6/30	.30	1.09	9/30	NIL	NIL	YES		
2411 Oasis Petroleum	OAS	10.57	3	5	4	2.05	13- 25	(25-135%)	NMF	NIL	d.52	NIL	9	6/30	d.11	.38	9/30	NIL	NIL	YES		
512 Occidental Petroleum	OXY	72.57	2	3	2	1.20	85- 125	(15- 70%)	NMF	4.2	.11	3.04	18	6/30	d.18	.21	3/31	.76	.75	YES		
2430 Oceaneering Int'l	OII	26.64	2	3	4	1.30	40- 60	(50-125%)	26.1	4.1	1.02	1.08	5	6/30	.23	.72	9/30	.27	.27	YES		
1420 Office Depot	(NDQ) ODP	3.25	4	4	2	1.55	5- 9	(55-175%)	8.3	3.1	.39	.10	20	6/30	.03	.06	9/30	▲.025	NIL	YES		
2431 Oil States Int'l	OIS	32.12	-	3	-	NMF	25- 40	(N- 25%)	NMF	NIL	d1.06	NIL	5	6/30	d.22	.15	9/30	NIL	NIL	YES		
325 Old Dominion Freight	(NDQ) ODFL	70.01	4	3	3	1.05	75- 110	(5- 55%)	19.4	NIL	3.60	NIL	94	6/30	.98	1.00	9/30	NIL	NIL	YES		
786 Old Nat'l Bancorp	(NDQ) ONB	13.87	3	3	2	1.10	14- 20	(N- 45%)	13.1	3.7	1.06	.52	19	6/30	.31	.22	9/30	.13	.12	YES		
768 Old Republic	ORI	18.32	3	3	3	1.10	20- 30	(10- 65%)	13.4	4.1	1.37	.75	46	6/30	.34	.32	9/30	.188	.185	YES		
1603 Olin Corp.	OLN	21.12	-	3	-	1.20	30- 45	(40-115%)	17.7	3.8	1.19	.80	4	6/30	.24	.32	9/30	.20	.20	YES		
222 Omnicell, Inc.	(NDQ) OMCL	35.65	2	3	1	.95	40- 60	(10- 70%)	99.0	NIL	.36	NIL	39	6/30	d.03	.24	9/30	NIL	NIL	YES		
2399 Omnicon Group	OMC	80.87	3	2	2	1.00	105- 140	(30- 75%)	16.7	2.8	4.85	2.30	66	9/30	◆1.06	.97	12/31	▲.55	.50	YES		
1643 On Assignment	ASGN	36.55	4	3	3	1.40	45- 70	(25- 90%)	18.9	NIL	1.93	NIL	78	6/30	.48	.28	9/30	NIL	NIL	YES		
1372 ON Semiconductor	(NDQ) ON	11.67	4	3	3	1.45	20- 30	(70-155%)	13.3	NIL	.88	NIL	75	6/30	.21	.22	9/30	NIL	NIL	YES		
2637 1-800-FLOWERS.COM	(NDQ) FLWS	9.06	4	4	3	1.15	15- 25	(65-175%)	13.9	NIL	.65	NIL	32	6/30	d.17	d.16	9/30	NIL	NIL	YES		
607 ONEOK Inc.	OKE	50.03	1	3	3	1.30	50- 70	(N- 40%)	27.8	5.1	1.80	2.54	8	6/30	.41	.36	9/30	.615	.605	YES		
621 ONEOK Partners L.P.	OKS	41.87	2	3	3	1.00	50- 75	(20- 80%)	18.0	7.5	2.33	3.16	6	6/30	.54	.44	9/30	.79	.79	YES		
1248 1822 Open Text Corp.	(NDQ) OTEX	64.39	▲	3	2	.95	75- 110	(15- 70%)	25.8	1.4	2.50	.92	65	6/30	.70	.56	9/30	.23	.20	YES		
1625 Opko Health	OPK	9.40	▲	3	3	1.10	20- 30	(115-220%)	NMF	NIL	d.03	NIL	45	6/30	.02	d.09	9/30	NIL	NIL	YES		
2592 Oracle Corp.	ORCL	38.42	3	1	2	1.05	50- 60	(30- 55%)	13.9	1.7	2.76	.64	14	8/31	.55	.53	12/31	.15	.15	YES		
234 720 Orbital ATK	OA	77.64	-	3	-	NMF	70- 105	(N- 35%)	14.2	1.5	5.46	1.20	59	6/30	1.23	.89	9/30	.30	.26	YES		
130 Orbotech Ltd.	(NDQ) ORBK	27.75	▼	3	3	.90	40- 55	(45-100%)	15.3	NIL	1.81	NIL	23	6/30	.30	.30	9/30	NIL	NIL	YES		
2129 O'Reilly Automotive	(NDQ) ORLY	278.07	3	2	3	.75	255- 345	(N- 25%)	25.0	NIL	11.11	NIL	95	6/30	2.65	2.29	9/30	NIL	NIL	YES		
1228 Ormat Technologies	ORA	48.02	3	3	3	1.00	45- 65	(N- 35%)	27.3	1.1	1.76	.54	26	6/30	.49	.28	9/30	.07	.06	YES		
166 Oshkosh Corp.	OSK	53.30	2	3	2	1.35	70- 100	(30- 90%)	17.5	1.4	3.05	.76	55	6/30	1.13	1.13	9/30	.19	.17	YES		
915 Otter Tail Corp.	(NDQ) OTTR	34.20	3	2	2	.85	30- 45	(N- 30%)	21.1	3.7	1.62	1.26	16	6/30	.41	.36	9/30	.313	.308	YES		
1646 404 Outerwall Inc.	OUTR		SEE FINAL SUPPLEMENT - PAGE 1646																			
2638 Overstock.com	(NDQ) OSTK	14.85	3	4	4	1.10	18- 30	(20-100%)	64.6	NIL	.23	NIL	32	6/30	d.04	.07	9/30	NIL	NIL	YES		
223 Owens & Minor	OMI	33.29	2	2	4	.95	50- 70	(50-110%)	16.2	3.1	2.05	1.03	39	6/30	.45	.39	9/30	.255	.253	YES		
1115 Owens Corning	OC	52.12	5	3	3	1.30	60- 90	(15- 75%)	14.8	1.4	3.51	.72	89	6/30	1.19	.77	12/31	.18	.17	YES		
847 1181 Owens-Illinois	OI	17.37	2	3	3	1.50	35- 50	(100-190%)	7.3	NIL	2.37	NIL	82	6/30	.65	.60	9/30	NIL	NIL	YES		
2111 Oxford Inds.	OXM	65.18	4	3	3	1.20	80- 115	(25- 75%)	16.3	1.7	3.99	1.08	86	7/31	1.48	1.32	12/31	.27	.25	YES		
513 PBF Energy	PBF	21.07	3	3	4	1.40	45- 65	(115-210%)	8.4	5.7	2.50	1.20	18	6/30	1.06	1.57	9/30	.30	.30	YES		
2188 PC Connection	(NDQ) CNXN	25.66	4	3	3	1.00	25- 40	(N- 55%)	1													



PAGE NUMBERS

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RANKS

Industry Rank

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NAME OF STOCK	Ticker Symbol	Recent Price			Timeliness	Safety		Technical	Beta	3-5 year Target Price and % appreciation potential	Current P/E Ratio	% Est'd Yield next 12 mos.	Est'd Earnings 12 mos. to 3-31-17	(f) Est'd Div'd next 12 mos.	LATEST RESULTS									
		Qtr. Ended	Earnings Per sh.	Year Ago		Qtr. Ended	Latest Div'd								Year Ago									
1229	Pattern Energy Group (NDQ)	PEGI	22.38	3	3	2	1.30	25-	25-	10-	55%	NMF	7.1	.07	1.60	26	6/30	d.04	.21	12/31	▲.40	.378	YES	
224	Patterson Cos. (NDQ)	PDCO	44.58	2	2	3	.90	60-	60-	85-	35-90%	17.8	2.2	2.50	1.00	39	7/31	.40	.20	12/31	.24	.22	YES	
2619	Paychex, Inc. (NDQ)	PAYX	56.14	3	1	2	.90	65-	65-	75-	15-35%	25.6	3.3	2.19	1.87	64	8/31	.60	.58	12/31	.46	.42	YES	
1823	Paylocity Holding Corp (NDQ)	PCTY	44.36	5	4	3	1.30	45-	45-	70-	(N-60%)	NMF	NIL	d.01	NIL	65	6/30	d.11	d.09	9/30	NIL	NIL	YES	
2569	PayPal Holdings (NDQ)	PYPL	39.83	-	2	-	NMF	40-	40-	50-	(N-25%)	32.6	NIL	1.22	NIL	58	6/30	.27	.25	9/30	NIL	NIL	YES	
608	Pembina Pipeline Corp.(TSE)	PPL.TO	40.92	2	3	3	.90	40-	40-	60-	(N-45%)	35.0	4.7	1.17	1.92	8	6/30	.25	.09	9/30	.48	.458	YES	
2369	Penn Nat'l Gaming (NDQ)	PENN	13.27	4	3	4	1.20	25-	25-	40-	90-200%	14.9	NIL	.89	NIL	80	6/30	.38	.19	9/30	NIL	NIL	YES	
2146	Penney (J.C.) (NDQ)	JCP	8.48	3	5	1	1.30	11-	11-	20-	30-135%	29.2	NIL	▲.29	NIL	57	7/31	d.05	d.44	9/30	NIL	NIL	YES	
1537	Penn. R.E.I.T. (NDQ)	PEI	21.48	2	3	1	1.25	20-	20-	35-	(N-65%)	NMF	4.1	.13	.87	50	6/30	.06	d.51	9/30	.21	.21	YES	
2130	Penske Auto (NDQ)	PAG	45.32	5	3	3	1.25	50-	50-	75-	10-65%	11.4	2.7	3.97	1.22	95	6/30	1.10	1.05	12/31	▲.29	.25	YES	
1767	Pentair plc (NDQ)	PNR	59.44	3	3	2	1.15	75-	75-	110-	25-85%	17.4	2.3	3.41	1.36	36	6/30	1.11	1.08	12/31	.34	.32	YES	
1508	People's United Fin'l (NDQ)	PBCT	15.64	3	2	2	.90	19-	19-	25-	20-60%	17.0	4.3	.92	.68	29	6/30	.23	.20	9/30	.17	.168	YES	
1979	PepsiCo, Inc. (NDQ)	PEP	106.95	2	1	3	.75	120-	120-	145-	10-35%	22.0	2.8	4.86	3.04	38	9/30	1.37	1.35	9/30	.753	.703	YES	
1953	Performance Food Group (NDQ)	PFPG	24.79	-	3	-	NMF	20-	20-	30-	(N-20%)	27.9	NIL	.89	NIL	79	6/30	.29	.39	9/30	NIL	NIL	YES	
131	PerkinElmer Inc. (NDQ)	PKI	52.49	4	3	3	1.10	60-	60-	95-	15-80%	18.5	0.5	2.84	.28	23	6/30	.67	.60	9/30	.07	.07	YES	
234	1628	Perrigo Co. plc (NDQ)	PRGO	88.24	4	3	5	80-	160-	240-	80-170%	12.5	0.7	7.05	.61	45	6/30	1.93	NA	9/30	.145	.125	YES	
2113	Perry Ellis Int'l (NDQ)	PERY	18.95	3	4	3	1.30	25-	25-	45-	30-135%	9.3	NIL	2.04	NIL	86	7/31	.15	.31	9/30	NIL	NIL	YES	
970	PetMed Express (NDQ)	PETS	20.85	2	3	3	.90	19-	19-	30-	(N-45%)	18.1	3.7	1.15	.78	84	6/30	.32	.29	9/30	.19	.18	YES	
514	Petroleo Brasileiro ADR (NDQ)	PBR	11.77	1	5	3	1.75	17-	17-	30-	45-155%	49.0	NIL	.24	NIL	18	6/30	NIL	.04	9/30	NIL	NIL	YES	
629	1629	Pfizer, Inc. (NDQ)	PFE	32.69	1	1	1	.85	40-	40-	50-	20-55%	19.7	3.7	1.66	1.20	45	6/30	.33	.42	12/31	.30	.28	YES
971	PharMerica Corp. (NDQ)	PMC	27.74	3	4	4	1.05	30-	30-	50-	10-80%	18.7	NIL	1.48	NIL	84	6/30	.30	.27	9/30	NIL	NIL	YES	
1988	Philips Electronics NV(g) (NDQ)	PHG	29.24	2	3	3	1.20	35-	35-	50-	20-70%	41.8	3.2	.70	.94	52	6/30	.28	.28	9/30	NIL	NIL	YES	
1993	Philip Morris Int'l (NDQ)	PM	96.56	▲	2	2	.80	90-	90-	120-	(N-25%)	20.3	4.3	4.75	4.16	15	9/30	▲1.25	1.25	12/31	▲1.04	1.02	YES	
515	Phillips 66 (NDQ)	PSX	79.59	3	3	5	1.30	85-	85-	125-	5-55%	21.6	3.3	3.68	2.62	18	6/30	.93	1.84	12/31	.63	.56	YES	
1391	Photronics Inc. (NDQ)	PLAB	10.00	4	4	3	1.00	12-	12-	20-	20-100%	18.9	NIL	.53	NIL	67	7/31	.12	.17	9/30	NIL	NIL	YES	
1837	549	Piedmont Natural Gas (NDQ)	PNY					SEE FINAL SUPPLEMENT - PAGE 1837																
1038	2190	Pier 1 Imports (NDQ)	PIR	4.40	3	4	4	1.35	8-	13-	80-195%	22.0	6.4	▼.20	.28	61	8/31	d.05	.04	12/31	.07	.07	YES	
1928	Pilgrim's Pride Corp. (NDQ)	PPC	20.93	3	4	4	1.05	25-	25-	35-	20-65%	9.9	NIL	2.12	NIL	49	6/30	.60	.93	9/30	NIL	NIL	YES	
2370	Pinnacle Entertain. (NDQ)	PNK	12.46	-	4	-	NMF	17-	17-	30-	35-140%	NMF	NIL	d.03	NIL	80	6/30	d2.67	.41	9/30	NIL	NIL	YES	
1929	Pinnacle Foods (NDQ)	PF	51.44	4	3	3	.85	40-	40-	60-	(N-15%)	23.1	2.2	2.23	1.14	49	6/30	.42	.37	12/31	▲.285	.255	YES	
2234	Pinnacle West Capital (NDQ)	PNW	75.12	3	1	3	.70	65-	65-	80-	(N-5%)	18.3	3.5	4.11	2.62	31	6/30	1.08	1.10	9/30	.625	.595	YES	
2412	Pioneer Natural Res. (NDQ)	PXD	184.03	2	3	3	1.45	145-	145-	220-	(N-20%)	NMF	NIL	d.08	.08	9	6/30	d.22	.10	12/31	.04	.04	YES	
1807	Piper Jaffray Cos. (NDQ)	PJC	51.00	3	3	4	1.30	50-	50-	75-	(N-45%)	14.2	NIL	3.68	NIL	10	6/30	.88	1.09	9/30	NIL	NIL	YES	
1421	Pitney Bowes (NDQ)	PBI	17.22	2	3	3	1.15	20-	20-	30-	15-75%	9.4	4.4	1.83	.75	20	6/30	.39	.45	9/30	.188	.187	YES	
622	Plains All Amer. Pipe. (NDQ)	PAA	32.46	1	3	5	1.20	40-	40-	60-	25-85%	41.6	6.8	7.8	2.20	6	6/30	d.20	d.06	12/31	▼.55	.70	YES	
461	2317	Planet Fitness (NDQ)	PLNT	19.45	-	3	-	NMF	30-	40-	55-105%	26.3	NIL	.74	NIL	85	6/30	.11	.32	9/30	NIL	NIL	YES	
1339	Plantronics Inc. (NDQ)	PLT	51.34	2	3	3	1.05	50-	50-	75-	(N-45%)	20.1	1.2	2.55	.60	56	6/30	.68	.52	9/30	.15	.15	YES	
1248	576	Platform Specialty (NDQ)	PAH	7.49	3	4	3	2.00	17-	25-	125-235%	10.9	NIL	.69	NIL	62	6/30	.16	d.06	9/30	NIL	NIL	YES	
1340	Plexus Corp. (NDQ)	PLXS	45.58	2	3	2	1.15	45-	45-	70-	(N-55%)	14.7	NIL	3.10	NIL	56	6/30	.82	.69	9/30	NIL	NIL	YES	
1248	2318	Polaris Inds. (NDQ)	PII	77.54	3	3	4	1.20	140-	210-	80-170%	12.3	2.8	6.29	2.20	85	6/30	1.09	1.49	9/30	.55	.53	YES	
1646	959	Polycom, Inc. (NDQ)	PLCM					SEE FINAL SUPPLEMENT - PAGE 1646																
577	PolyOne Corp. (NDQ)	POL	30.73	3	3	3	1.35	45-	45-	70-	45-130%	13.2	1.8	2.32	.54	62	6/30	.63	.57	3/31	▲.135	.12	YES	
2319	Pool Corp. (NDQ)	POOL	93.36	3	3	3	.95	70-	70-	105-	(N-10%)	28.1	1.3	3.32	1.24	85	6/30	1.98	1.75	9/30	.31	.26	YES	
368	Popeyes LA Kitchen (NDQ)	PLKI	51.71	3	3	3	.70	60-	60-	90-	15-75%	23.4	NIL	2.21	NIL	87	6/30	.47	.44	9/30	NIL	NIL	YES	
2521	Popular Inc. (NDQ)	BPOP	37.86	▼	5	4	1	1.45	45-	80-	20-110%	11.0	1.6	3.44	.60	51	6/30	.85	5.79	12/31	.15	.15	YES	
2235	Portland General (NDQ)	POR	41.77	3	2	3	.70	30-	30-	45-	(N-10%)	18.8	3.2	2.22	1.32	31	6/30	.42	.44	9/30	▲.32	.30	YES	
746	POSCO ADR(g) (NDQ)	PKX	52.91	2	3	3	1.10	75-	75-	115-	40-115%	18.9	3.4	2.80	1.80	7	6/30	1.39(p)	1.27(p)	9/30	.333	.416	YES	
1930	Post Holdings (NDQ)	POST	81.36	3	2	2	1.00	70-	70-	110-	(N-35%)	31.8	NIL	2.56	NIL	49	6/30	.62	.55	9/30	NIL	NIL	YES	
1246	1604	Potash Corp. (NDQ)	POT	16.08	-	3	-	1.15	20-	35-	25-120%	26.8	2.5	.60	.40	4	6/30	.18	.50	12/31	▼.10	.38	YES	
369	Potbelly Corp. (NDQ)	PBPB	13.11	3	4	3	.85	16-	16-	25-	20-90%	29.8	NIL	.44	NIL	87	6/30	.13	.10	9/30	NIL	NIL	YES	
1168	Potlatch Corp. (NDQ)	PCH	38.80	1	3	3	.95	45-	45-	65-	15-70%	NMF	3.9	.35	1.50	42	6/30	d.77	.02	9/30	.375	.375	YES	
1558	Power Financial (TSE)	PWF.TO	31.25	3	3	4	.90	30-	30-	45-	(N-45%)	11.0	5.0	2.84	1.57	22	6/30	.71	.86	12/31	.393	.373	YES	
1392	Power Integrations (NDQ)	POWI	63.00	3	3	3	1.05	55-	55-	85-	(N-35%)	38.0	0.8	1.66	.52	67	6/30	.38	.29	9/30	.13	.12	YES	
578	Praxair Inc. (NDQ)	PX	118.49	3	1	2	.95	135-	135-	165-	15-40%	20.9	2.7	5.66	3.15	62	6/							





PAGE NUMBERS

Bold type refers to Ratings and Reports

RANKS

Industry Rank

Do Options Trade?

NAME OF STOCK	Ticker Symbol	Recent Price				3-5 year Target Price Range and % appreciation potential	Current P/E Ratio	% Est'd Yield next 12 mos.	Est'd Earnings 12 mos. to 3-31-17	(f) Est'd Div'd next 12 mos.	LATEST RESULTS			Do Options Trade?								
		Timeliness	Safety	Technical	Beta						Qtr. Ended	Earnings Per sh.	Year Ago		Qtr. Ended	Latest Div'd	Year Ago					
																		Qtr. Ended	Earnings Per sh.	Year Ago	Qtr. Ended	Latest Div'd
2382 Scholastic Corp. (NDO)	SCHL	38.01	3	3	2	1.00	30-	45-	65-	(N- 20%)	20.9	1.6	1.82	.60	54	8/31	d1.15	d1.42	12/31	.15	.15	YES
581 Schulman (A.) (NDO)	SHLM	27.90	2	3	4	1.40	45-	65-	65-	(60-135%)	13.4	2.9	2.08	.82	62	5/31	.53	d.34	12/31	♦.205	.205	YES
1800 Schwab (Charles) (NDO)	SCHW	32.21	3	3	3	1.30	35-	50-	60-	(10- 55%)	25.6	0.9	1.26	.28	47	9/30	♦.35	.28	9/30	.07	.06	YES
1995 Schweitzer-Mauduit Int'l	SWM	37.75	4	3	3	.75	40-	60-	60-	(5- 60%)	12.1	4.2	3.11	1.60	15	6/30	.85	.76	9/30	.40	.38	YES
407 Science Applications	SAIC	67.60	4	3	3	.95	55-	80-	80-	(N- 20%)	20.5	1.8	3.30	1.24	69	7/31	.85	.66	12/31	.31	.31	YES
1039 2371 Scientific Games (NDO)	SGMS	12.70	-	5	-	1.75	15-	30-	30-	(20-135%)	NMF	NIL	d3.03	NIL	80	6/30	d.59	d.93	9/30	NIL	NIL	YES
1198 Scotts Miracle-Gro	SMG	86.64	5	3	4	.90	60-	90-	90-	(N- 5%)	23.8	2.4	3.64	2.05	28	6/30	2.16	2.14	9/30	▲.50	.47	YES
2344 Scripps (E.W.) 'A'	SSP	14.11	1	3	3	1.20	25-	35-	35-	(75-150%)	15.0	NIL	.94	NIL	76	6/30	.14	d.15	9/30	NIL	NIL	YES
2345 Scripps Networks	SNI	61.69	3	2	3	1.00	110-	150-	150-	(80-145%)	11.9	1.6	5.18	1.00	76	6/30	1.58	1.49	9/30	.25	.23	YES
629 2013 SeaChange Int'l (NDO)	SEAC	2.66	-	4	-	.80	4-	6-	6-	(50-125%)	NMF	NIL	d1.84	NIL	44	7/31	d.77	d.16	9/30	NIL	NIL	YES
1841 2435 Seadrill Ltd. (NDO)	SDRL	2.32	3	5	3	1.75	8-	15-	15-	(245-545%)	2.8	NIL	.84	NIL	5	6/30	.44	.77	9/30	NIL	NIL	YES
1409 Seagate Technology (NDO)	STX	35.34	3	3	3	1.40	30-	45-	45-	(N- 5%)	11.6	7.1	3.04	2.52	83	9/30	♦.99	.54	3/31	♦.63	.63	YES
1183 Sealed Air	SEE	44.21	3	3	3	1.05	45-	70-	70-	(N- 60%)	24.7	1.4	1.79	.64	82	6/30	.25	.13	12/31	.16	.13	YES
2149 Sears Holdings (NDO)	SHLD	10.99	3	5	3	NMF	20-	35-	35-	(80-220%)	NMF	NIL	▲d7.94	NIL	57	7/31	d2.03	d2.40	9/30	NIL	NIL	YES
839 Seattle Genetics (NDO)	SGEN	50.73	2	4	3	1.20	35-	60-	60-	(N- 20%)	NMF	NIL	d1.10	NIL	40	6/30	d.23	d.38	9/30	NIL	NIL	YES
1426 2322 SeaWorld Entertainment	SEAS	13.60	3	3	5	1.00	20-	35-	35-	(45-155%)	20.0	NIL	.68	NIL	85	6/30	.21	.22	12/31	▼.10	.21	YES
236 812 Select Med. Hldgs.	SEM	13.40	3	3	4	1.15	13-	20-	20-	(N- 50%)	13.8	NIL	.97	NIL	70	6/30	.23	.28	9/30	NIL	NIL	YES
771 Selective Ins. Group (NDO)	SIGI	40.15	4	3	2	.95	35-	55-	55-	(N- 35%)	14.9	1.5	2.69	.60	46	6/30	.72	.62	9/30	.15	.14	YES
2236 Sempra Energy	SRE	105.06	▼3	2	2	.80	115-	155-	155-	(10- 50%)	25.8	3.1	4.08	3.22	31	6/30	.06	1.03	12/31	.755	.70	YES
1375 Semtech Corp. (NDO)	SMTC	24.85	2	3	2	1.20	25-	40-	40-	(N- 60%)	36.0	NIL	.69	NIL	75	7/31	.14	NIL	9/30	NIL	NIL	YES
1841 840 Senomyx, Inc. (NDO)	SNMX	2.72	-	5	-	1.55	8-	14-	14-	(195-415%)	NMF	NIL	d.20	NIL	40	6/30	d.05	d.06	9/30	NIL	NIL	YES
133 Sensata Technologies	ST	37.18	4	3	3	1.30	55-	80-	80-	(50-115%)	12.4	NIL	2.99	NIL	23	6/30	.73	.73	9/30	NIL	NIL	YES
1933 Sensata Techn.	SXT	72.52	2	2	2	1.10	55-	75-	75-	(N- 5%)	21.6	1.5	3.35	1.08	49	6/30	.84	.80	9/30	.27	.27	YES
1835 Service Corp. Int'l	SCI	26.53	4	3	3	1.05	30-	45-	45-	(15- 70%)	25.0	2.0	1.06	.52	34	6/30	.08	.25	9/30	.13	.12	YES
408 ServiceMaster Global	SERV	35.42	▼4	3	2	.90	50-	75-	75-	(40-110%)	17.9	NIL	1.98	NIL	69	6/30	.63	.55	9/30	NIL	NIL	YES
2621 ServiceNow, Inc.	NOW	76.16	1	4	3	1.20	45-	75-	75-	(N- N%)	NMF	NIL	d1.04	NIL	64	6/30	d.30	d.40	9/30	NIL	NIL	YES
373 Shake Shack	SHAK	31.95	-	3	-	NMF	30-	50-	50-	(N- 55%)	59.2	NIL	.54	NIL	87	6/30	.14	.09	9/30	NIL	NIL	YES
1024 Shaw Commun. 'B' (TSE)	SJRB.TO	26.38b	2	4	4	.60	25-	35-	35-	(N- 35%)	21.6	4.5	1.22	1.20	73	5/31	11(b)	.42(b)	12/31	.296(b)	.296(b)	YES
930 Shenandoah Telecom. (NDO)	SHEN	26.55	3	3	3	1.05	35-	55-	55-	(30-105%)	27.4	1.0	.97	.26	71	6/30	.27	.21	12/31	▲.25	.24	YES
1142 Sherwin-Williams	SHW	270.85	3	1	2	.95	305-	375-	375-	(15- 40%)	21.4	1.3	12.68	3.60	72	6/30	3.99	3.70	12/31	♦.84	.67	YES
1771 Siemens AG (ADS) (PNK)	SIEGY	115.96	3	3	3	1.15	145-	220-	220-	(25- 90%)	13.5	3.3	8.60	3.81	36	6/30	1.84	1.65	9/30	NIL	NIL	YES
237 597 Sierra Wireless (NDO)	SWIR	13.45	4	4	3	1.20	30-	50-	50-	(25-270%)	NMF	NIL	d.02	NIL	77	6/30	.02	.12	9/30	NIL	NIL	YES
2524 Signature Bank (NDO)	SBNY	115.50	4	3	4	1.00	140-	210-	210-	(20- 80%)	13.6	NIL	8.48	NIL	51	6/30	1.90	1.77	9/30	NIL	NIL	YES
629 2191 Signet Jewelers Ltd. (NDO)	SIG	80.40	5	3	4	1.05	140-	210-	210-	(75-160%)	10.7	1.4	7.50	1.12	61	7/31	1.14	1.28	12/31	.26	.22	YES
1184 Silgan Holdings (NDO)	SLGN	51.15	3	3	4	.85	55-	85-	85-	(10- 65%)	17.9	1.3	2.86	.68	82	6/30	.55	.70	9/30	.17	.16	YES
1376 Silicon Labs. (NDO)	SLAB	58.40	1	3	3	1.05	45-	70-	70-	(N- 20%)	49.9	NIL	1.17	NIL	75	6/30	.37	.17	9/30	NIL	NIL	YES
1576 Silver Wheaton	SLW	24.08	1	3	1	1.20	25-	35-	35-	(5- 45%)	29.0	0.8	.83	.20	3	6/30	.14	.13	9/30	.05	.05	YES
1543 Simon Property Group	SPG	198.44	4	2	2	.85	200-	270-	270-	(N- 35%)	32.3	3.4	6.15	6.83	50	6/30	1.45	1.52	9/30	▲1.65	1.55	YES
1117 Simpson Manufacturing	SSD	43.36	3	3	2	1.10	40-	60-	60-	(N- 40%)	25.4	1.7	1.71	.72	89	6/30	.54	.43	9/30	▲.18	.16	YES
2346 Sinclair Broadcast (NDO)	SBGI	26.50	4	4	3	1.30	45-	75-	75-	(70-185%)	7.9	2.7	3.37	.72	76	6/30	.52	.48	9/30	.18	.165	YES
2347 Sirius XM Holdings (NDO)	SIRI	4.10	4	4	3	1.10	10-	16-	16-	(145-290%)	24.1	NIL	.17	NIL	76	6/30	.03	.02	9/30	NIL	NIL	YES
2323 Six Flags Entertainment	SIX	51.09	3	3	3	.95	50-	75-	75-	(N- 45%)	28.2	4.5	1.81	2.32	85	6/30	.64	.67	9/30	.58	.52	YES
2160 SKKechers U.S.A.	SKK	22.67	5	3	4	1.25	35-	55-	55-	(55-145%)	12.1	NIL	1.87	NIL	81	6/30	.48	.52	9/30	NIL	NIL	YES
1837 1343 Skullcandy, Inc. (NDO)	SKUL	28.65	3	3	3	1.35	25-	40-	40-	(N- 40%)	10.9	0.7	2.63	.20	92	6/30	.77	.61	12/31	.05	.04	YES
312 SkyWest (NDO)	SKYW	28.65	3	3	3	1.35	25-	40-	40-	(N- 40%)	10.9	0.7	2.63	.20	92	6/30	.77	.61	12/31	.05	.04	YES
2462 1377 Skyworks Solutions (NDO)	SWKS	77.65	5	3	5	1.40	100-	150-	150-	(30- 95%)	17.1	1.4	4.54	1.12	75	6/30	.97	1.06	9/30	▲.28	.26	YES
1954 Smart & Final Stores	SFS	13.10	3	3	5	1.00	17-	25-	25-	(30- 90%)	27.3	NIL	.48	NIL	79	6/30	.10	.14	9/30	NIL	NIL	YES
2324 Smith & Wesson Hldg. (NDO)	SWHC	26.25	4	3	2	1.10	18-	25-	25-	(N- N%)	13.8	NIL	.90	NIL	85	7/31	.57	.26	9/30	NIL	NIL	YES
1727 Smith (A.O.) (NDO)	AOS	49.20	4	3	4	1.20	35-	50-	50-	(N- N%)	26.3	1.0	1.87	.48	68	6/30	.49	.40	12/31	.12	.095	YES
630 1934 Smucker (J.M.) (NDO)	SJM	132.22	2	1	2	.70	155-	190-	190-	(15- 45%)	20.2	2.3	6.55	3.00	49	7/31	1.59	1.32	9/30	▲.75	.67	YES
★ 1728 Snap-on. (NDO)	SNA	149.56	▼4	2	4	1.10	155-	210-	210-	(5- 40%)	16.3	1.6	9.19	2.44	68	6/30	2.36	2.03	9/30	.61	.53	YES
1935 Snyder's-Lance (NDO)	LNCE	35.57	3	3	3	.80	35-	50-	50-	(N- 40%)	25.2	1.8	1.41	.64	49	6/30	.28	.27	9/30	.16	.16	YES
1981 SodaStream Int'l (NDO)	SODA	24.57	3	4	1	1.20	25-	45-	45-	(N- 85%)	22.5	NIL	1.09	NIL	38	6/30	.37	.05	9/30	NIL	NIL	YES
2641 Sohu.com Inc. (NDO)	SOHU	42.21	1	3	4	1.30	25-	35-	35-	(N- N%)	NMF	NIL	d2.32	NIL	32	6/30	d1.64	d.71	9/30	NIL	NIL	YES
2665 1230 SolarCity Corp. (NDO)	SCTY	20.14	-	4																		



PAGE NUMBERS

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NAME OF STOCK	Ticker Symbol	Recent Price			RANKS			3-5 year Target Price Range and % appreciation potential	Current P/E Ratio	% Est'd Yield next 12 mos.	Est'd Earnings 12 mos. to 3-31-17	(f) Est'd Div'd next 12 mos.	LATEST RESULTS					Do Options Trade?
		Timeliness	Safety	Technical	Beta	Qtr. Ended	Earnings Per sh.						Year Ago	Qtr. Ended	Latest Div'd	Year Ago		
1424 375 Starbucks Corp. (NDQ)	SBUX	52.61	3 1 2	.95	70-90	(35-70%)	25.9	1.8	2.03	.96	87	6/30	.49	.42	9/30	.20	.16	YES
2372 Starwood Hotels	HOT				SEE FINAL SUPPLEMENT - PAGE 1424													
2348 Starz (NDQ)	STRA	30.52	- 3 -	1.10	35-55	(15-80%)	13.5	NIL	2.26	NIL	76	6/30	.54	.59	9/30	NIL	NIL	YES
2525 State Street Corp.	STT	69.77	3 3 3	1.20	65-100	(N-45%)	13.7	2.2	5.09	1.56	51	6/30	1.47	.93	12/31	▲.38	.34	YES
750 Steel Dynamics (NDQ)	STLD	24.23	3 3 3	1.45	30-40	(25-65%)	11.3	2.3	2.14	.56	7	6/30	.58	.13	12/31	.14	.138	YES
1160 Steelcase, Inc. 'A'	SCS	13.40	4 3 3	1.20	20-30	(50-125%)	12.8	3.6	1.05	.48	96	8/31	.32	.35	12/31	.12	.113	YES
1647 2150 Stein Mart (NDQ)	SMRT	6.09	3 3 3	.95	12-18	(95-195%)	14.5	4.9	▼.42	.30	57	7/31	.06	.10	12/31	▲.075	.075	YES
2665 417 Stericycle Inc. (NDQ)	SRCL	74.85	3 2 3	.85	120-160	(60-115%)	18.6	NIL	4.03	NIL	24	6/30	.89	1.14	9/30	NIL	NIL	YES
190 STERIS plc	STE	69.29	3 2 3	1.00	85-115	(25-65%)	17.3	1.6	4.00	1.12	48	6/30	.79	.62	9/30	▲.28	.25	YES
1809 Stifel Financial Corp.	SF	38.40	2 3 4	1.30	55-85	(45-120%)	14.6	NIL	2.63	NIL	10	6/30	.69	.71	9/30	NIL	NIL	YES
1577 Stillwater Mining	SWC	12.45	2 4 2	1.55	13-20	(5-60%)	69.2	NIL	.18	NIL	3	6/30	.01	.06	9/30	NIL	NIL	YES
1378 STMicroelectronics	STM	8.26	3 3 3	1.45	13-20	(55-140%)	41.3	2.9	2.0	.24	75	6/30	.03	.04	9/30	.06	.10	YES
1836 StoneMor Partners L.P. (NDQ)	STON	24.78	1 3 4	.60	20-30	(N-20%)	NMF	10.7	d.52	2.64	34	6/30	d.26	d.16	9/30	.66	.65	YES
1344 Stratasy Ltd. (NDQ)	SSYS	20.39	2 3 4	1.35	30-45	(45-120%)	NMF	NIL	d1.36	NIL	56	6/30	d.36	d.55	9/30	NIL	NIL	YES
2004 Strayer Education (NDQ)	STRA	45.31	2 4 4	1.20	60-100	(30-120%)	14.4	NIL	3.14	NIL	25	6/30	.72	1.11	9/30	NIL	NIL	YES
191 Stryker Corp.	SYK	114.81	2 1 3	.95	110-135	(N-20%)	23.3	1.3	4.93	1.52	48	6/30	1.00	1.03	12/31	.38	.385	YES
2326 Sturm, Ruger & Co.	RGR	58.45	4 3 3	1.00	50-80	(N-35%)	14.6	2.8	4.01	1.66	85	6/30	1.22	.91	9/30	▲.49	.36	YES
623 Suburban Propane	SPH	33.71	1 3 3	.85	30-50	(N-50%)	21.9	10.5	1.54	3.55	6	6/30	d.49	d.67	9/30	.888	.888	YES
517 Suncof Energy (TSE)	SU.TO	37.96	2 3 4	1.20	40-65	(5-70%)	NMF	3.1	.13	1.16	18	6/30	d.46	.50	9/30	.29	.29	YES
624 Sunoco Logistics Part.	SXL	26.89	2 3 3	1.30	40-55	(50-105%)	24.0	7.4	1.12	2.00	6	6/30	.34	.83	9/30	▲.50	.438	YES
236 1231 SunPower Corp. (NDQ)	SPWR	8.54	1 4 4	1.90	25-45	(195-425%)	NMF	NIL	d1.13	NIL	26	6/30	d.51	.04	9/30	NIL	NIL	YES
2526 SunTrust Banks	STI	45.36	4 3 3	1.25	50-75	(10-65%)	12.2	2.3	3.71	1.06	51	6/30	.95	.90	9/30	▲.26	.24	YES
2436 Superior Energy Svcs.	SPN	18.07	2 4 3	1.70	15-25	(N-40%)	NMF	NIL	d2.31	NIL	5	6/30	d.53	d.31	9/30	NIL	.08	YES
1001 Superior Inds. Int'l	SUP	27.26	▼ 4 3 1	1.10	30-45	(10-65%)	14.3	2.6	1.91	.72	93	6/30	.52	.24	12/31	.18	.18	YES
★★ 1957 SUPERVALU INC.	SUV	5.02	- 5 -	1.15	8-16	(60-220%)	9.1	NIL	.55	NIL	79	6/30	◆.11	.11	9/30	NIL	NIL	YES
192 SurModics, Inc. (NDQ)	SRDX	28.50	▼ 2 3 3	.80	30-45	(5-60%)	32.0	NIL	.89	NIL	48	6/30	.30	.30	9/30	NIL	NIL	YES
327 Swift Transportation	SWFT	20.00	5 4 3	1.75	30-50	(50-150%)	14.1	NIL	1.42	NIL	94	6/30	.34	.37	9/30	NIL	NIL	YES
433 Swiss Helvetia Fund	SWZ	10.48	- 3 3	.90	11-16	(5-55%)	NMF	0.5	NMF	.05	-	6/30	◆11.99(q)	13.56(q)	9/30	NIL	.001	YES
2597 Symantec Corp. (NDQ)	SYMC	24.22	- 3 -	1.10	30-40	(25-65%)	22.0	1.2	1.10	.30	14	6/30	.29	.26	9/30	.075	.15	YES
961 Synaptics (NDQ)	SYNA	65.90	4 3 3	1.15	105-155	(60-135%)	15.7	NIL	4.19	NIL	37	6/30	.46	1.57	9/30	NIL	NIL	YES
2014 Synchronoss Techn. (NDQ)	SNCR	36.72	5 3 2	1.55	65-95	(75-160%)	14.3	NIL	2.56	NIL	44	6/30	.57	.56	9/30	NIL	NIL	YES
2573 Synchrony Financial	SYF	26.64	- 3 -	NMF	40-60	(50-125%)	10.1	1.0	2.65	.52	58	6/30	.58	.65	9/30	▲.13	NIL	YES
1648 409 SYNEX Corp.	SNX	104.71	4 3 3	1.10	85-130	(N-25%)	15.9	2.0	6.58	1.00	69	8/31	1.73	1.47	12/31	▲.25	.20	YES
2598 Synopsys, Inc. (NDQ)	SNPS	59.62	3 1 3	.95	60-75	(N-25%)	19.2	NIL	3.11	NIL	14	7/31	.76	.63	9/30	NIL	NIL	YES
2527 Synovus Financial	SNV	32.28	3 3 3	1.20	50-75	(55-130%)	16.6	1.5	1.95	.48	51	9/30	◆.51	.42	9/30	.12	.10	YES
1936 Synutra Int'l (NDQ)	SYUT	4.76	- 5 -	1.25	6-12	(25-150%)	15.9	NIL	.30	NIL	49	6/30	NIL	.13	9/30	NIL	NIL	YES
1958 Sysco Corp.	SYU	48.27	2 1 1	.75	50-60	(5-25%)	21.4	2.6	2.26	1.27	79	6/30	.64	.52	12/31	.31	.30	YES
932 T-Mobile US (NDQ)	TMUS	47.35	5 3 3	1.00	50-75	(5-60%)	39.1	NIL	1.21	NIL	71	6/30	.25	.42	9/30	NIL	NIL	YES
789 TCF Financial	TCB	14.43	3 3 3	1.20	20-30	(40-110%)	12.4	2.1	1.16	.30	19	6/30	.31	.29	9/30	.075	.05	YES
1801 TD Ameritrade Holding (NDQ)	AMTD	36.23	3 3 4	1.20	40-55	(10-50%)	20.9	1.9	1.73	.68	47	6/30	.45	.36	9/30	.17	.15	YES
1345 TE Connectivity	TEL	61.29	3 3 3	1.20	75-115	(20-90%)	14.2	2.4	4.31	1.48	56	6/30	1.08	.90	9/30	.37	.33	YES
2218 TJX Companies	TJX	73.16	4 1 3	.85	95-115	(30-55%)	20.7	1.4	3.54	1.04	63	7/31	.84	.80	12/31	.26	.21	YES
1134 TRI Pointe Group	TPH	12.71	4 3 3	1.35	20-35	(55-175%)	9.0	NIL	1.42	NIL	90	6/30	.46	.34	9/30	NIL	NIL	YES
1578 Tahoe Resources	TAHO	11.79	3 4 1	1.20	19-30	(60-155%)	13.6	2.0	.87	.24	3	6/30	.19	.08	12/31	.06	.06	YES
1039 2219 Tailored Brands	TLRD	15.81	3 4 4	1.25	35-60	(120-280%)	9.5	4.6	1.66	.72	63	7/31	.99	.98	12/31	.18	.18	YES
434 Taiwan Fund	TWN	16.94	- 4 3	.85	20-35	(20-105%)	NMF	NIL	NMF	NIL	-	2/28	16.80(q)	20.99(q)	9/30	NIL	NIL	YES
1379 Taiwan Semic. ADR	TSM	30.86	5 2 3	.95	35-50	(15-60%)	15.7	3.0	1.97	.94	75	9/30	◆.59	.46	9/30	.94	.73	YES
2015 Take-Two Interactive (NDQ)	TTWO	45.09	4 3 3	1.10	35-55	(N-20%)	69.4	NIL	.65	NIL	44	6/30	d.46	d.81	9/30	NIL	NIL	YES
2151 Target Corp.	TGT	67.36	3 1 4	.80	90-110	(35-65%)	13.5	3.6	4.99	2.40	57	7/31	1.23	1.21	12/31	.60	.56	YES
1841 724 TASER Int'l (NDQ)	TASR	22.63	3 4 3	1.20	35-60	(55-165%)	61.2	NIL	.37	NIL	59	6/30	.07	.11	9/30	NIL	NIL	YES
109 Tata Motors ADR	TTM	41.06	4 3 2	1.40	45-70	(10-70%)	14.9	0.5	2.75	.20	60	6/30	.49	.59	9/30	.015	NIL	YES
1135 Taylor Morrison Home	TMHC	17.46	3 3 3	1.45	25-35	(45-100%)	10.0	NIL	1.74	NIL	90	6/30	.37	.15	9/30	NIL	NIL	YES
1841 1645 Team Health Hldgs.	TMH	40.25	- 3 -	1.05	60-85	(50-110%)	14.0	NIL	2.88	NIL	78	6/30	.66	.69	9/30	NIL	NIL	YES
1410 Tech Data (NDQ)	TECD	80.57	▼ 4 3 3	1.00	75-115	(N-45%)	13.5	NIL	5.95	NIL	83	7/31	1.42	1.40	9/30	NIL	NIL	YES
1592 Teck Resources Ltd. 'B'(TSE)	TCKB.TO	27.10b	2 4 3	1.60	25-40	(N-50%)	58.9	0.4	.46	.10	2	6/30	.03(b)	.11(b)	9/30	NIL(b)	.15(b)	YES
337 Teekay Corp.	TK	7.92	4 5 5	1.70	20-35	(155-340%)	24.0	2.8	.33	.22	53	6/30	.01	.27	12/31	.055	.55	YES
2349 TEGNA Inc.	TGNA	20.03	- 3 -	1.40	35-55	(75-175%)	9.9	2.8	2.03	.56	76	6/30	.45	.18	9/30	.14	.14	YES
725 Teledyne Technologies	TDY	105.12	3 3 2	1.05	100-150	(N-45%)	19.8	NIL	5.30	NIL	59	6/30	1.32	1.34	9/30	NIL	NIL	YES
193 Teleflex Inc.	TFX	167.59	3 2 2	.85	145-200	(N-20%)	29.9	0.8	5.60	1.36	48	6/30	1.25	.93	9/30	.34	.34	YES
1033 Telefonica SA ADR(g)	TEF	9.73	2 4 3	1.15	12-20	(25-105%)	17.1	8.7	.57	.85	30	6/30	.15	.28	9/30	NIL	NIL	YES
933 Telephone & Data	TDS	26.97	3 3 3	1.20	20-35	(N-30%)	62.7	2.2	.43	.59	71	6/30	.25	.21	9/30	.148	.141	YES
410 TeleTech Holdings (NDQ)	TTEC	28.55	3 3 3	1.00	35-50	(25-75%)	19.0	1.4	1.50	.40	69	6/30	.28	.34	12/31	▲.20	.18	YES
934 TELUS Corporation (TSE)	T.TO																	

PAGE NUMBERS

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RANKS

Industry Rank

Do Options Trade?

NAME OF STOCK	Ticker Symbol	Recent Price			RANKS			3-5 year Target Price and % appreciation potential	Current P/E Ratio	% Est'd Yield next 12 mos.	Est'd Earnings 12 mos. to 3-31-17	(f) Est'd Div'd next 12 mos.	LATEST RESULTS						
		Timeliness	Safety	Technical	Beta	Qtr. Ended	Earnings Per sh.						Year Ago	Qtr. Ended	Latest Div'd	Year Ago			
																	Do Options Trade?		
134 Thermo Fisher Sci.	TMO	151.67	2 2 3	1.05	150- 200	(N- 30%)	28.1	0.4	5.40	.60	23	6/30	1.30	1.27	9/30	.15	.15	YES	
2028 Third Point Reinsurance	TPRE	12.35	1 3 4	.90	17- 25	(40-100%)	6.2	NIL	1.99	NIL	33	6/30	.51	.15	9/30	NIL	NIL	YES	
454 Thomson Reuters (TSE)	TRI.TO	52.26	3 2 3	.75	45- 60	(N- 15%)	24.7	2.6	2.12	1.36	74	6/30	.50	.52	9/30	.34	.335	YES	
2327 Thor Inds.	THO	81.78	4 3 3	1.15	75- 110	(N- 35%)	14.3	1.6	5.72	1.32	85	7/31	1.57	1.31	12/31	▲.33	.30	YES	
2660 1346 3D Systems	DDD	14.14	▼2 3 4	1.50	19- 30	(35-110%)	NMF	NIL	d.14	NIL	56	6/30	d.04	d.12	9/30	NIL	NIL	YES	
2460 1774 3M Company	MMM	169.95	▼3 1 1	.95	195- 240	(15- 40%)	20.4	2.6	8.35	4.44	36	6/30	2.08	2.02	9/30	1.11	1.025	YES	
237 2438 Tidewater Inc.	TDW	2.97	- 5 -	1.40	190- 190	(235-540%)	NMF	NIL	d3.40	NIL	5	6/30	d1.12	.18	9/30	NIL	.25	YES	
2193 Tiffany & Co.	TIF	72.04	2 3 4	1.10	90- 135	(25- 85%)	19.2	2.6	3.76	1.84	61	7/31	.84	.86	12/31	.45	.40	YES	
1143 Tile Shop Hldgs. (NDQ)	TTS	18.15	2 4 3	1.15	13- 20	(N- 10%)	37.8	NIL	.48	NIL	72	9/30	◆.09	.07	9/30	NIL	NIL	YES	
2220 Tilly's, Inc.	TLYS	9.29	3 3 3	.90	12- 18	(30- 95%)	30.0	NIL	▲.31	NIL	63	7/31	.05	.02	9/30	NIL	NIL	YES	
2383 Time Inc.	TIME	13.30	- 3 -	NMF	25- 35	(90-165%)	8.5	5.7	1.56	.76	54	6/30	.22	.27	9/30	.19	.19	YES	
2350 Time Warner	TWX	79.51	5 3 3	1.05	105- 155	(30- 95%)	14.6	2.0	5.44	1.61	76	6/30	1.20	1.16	9/30	.403	.35	YES	
737 Timken Co.	TKR	34.65	3 3 4	1.30	40- 60	(15- 75%)	17.9	3.0	1.94	1.04	17	6/30	.55	.57	9/30	.26	.26	YES	
457 1003 Titan Int'l	TWI	10.25	1 4 3	1.75	8- 13	(N- 25%)	NMF	0.2	d.43	.02	93	6/30	d.04	.01	9/30	.005	.005	YES	
2016 TiVo Corp. (NDQ)	TIVO	19.65	- 3 -	1.50	25- 40	(25-105%)	89.3	NIL	.22	NIL	44	6/30	d.11	.38	9/30	NIL	NIL	YES	
SEE FINAL SUPPLEMENT - PAGE 1035																			
1035 Tivo Inc.	TIVO.D																		
1136 Toll Brothers	TOL	28.61	4 3 3	1.35	40- 60	(40-110%)	10.6	NIL	2.70	NIL	90	7/31	.61	.36	9/30	NIL	NIL	YES	
1937 Tootsie Roll Ind.	TR	35.73	3 1 3	.85	35- 45	(N- 25%)	31.9	1.0	1.12	.36	49	6/30	.18	.18	12/31	.09	.087	YES	
1561 Torchmark Corp.	TMK	64.31	3 1 3	.95	70- 90	(10- 40%)	14.3	0.9	4.51	.56	22	6/30	1.15	1.00	12/31	.14	.135	YES	
1731 Toro Co.	TTC	47.18	5 3 3	.95	35- 50	(N- 5%)	22.2	1.3	2.13	.60	68	7/31	.50	.47	12/31	.15	.125	YES	
2528 Toronto-Dominion (TSE)	TD.TO	58.93b	3 2 3	1.70	65- 85	(10- 45%)	12.6	3.9	4.69	2.28	51	7/31	1.24(b)	1.19(b)	12/31	.55(b)	.51(b)	YES	
519 Total ADR	TOT	48.54	▲2 2 4	1.20	65- 85	(35- 75%)	12.5	5.7	3.88	2.76	18	6/30	.86	1.29	9/30	.692	.676	YES	
2574 Total System Svcs.	TSS	48.31	3 2 3	.95	55- 70	(15- 45%)	22.1	0.8	2.19	.40	58	6/30	.38	.45	12/31	.10	.10	YES	
111 Toyota Motor ADR(g)	TM	115.05	4 2 3	1.00	150- 200	(30- 75%)	12.0	3.5	9.60	4.00	60	6/30	3.54	3.36	9/30	NIL	NIL	YES	
1035 1144 tractor Supply (NDQ)	TSCO	65.27	4 3 4	.95	85- 125	(30- 90%)	19.7	1.5	3.31	.96	72	6/30	1.16	1.12	9/30	.24	.20	YES	
1232 TransAlta Corp. (TSE)	TA.TO	5.99b	2 3 3	.85	9- 16	(50-165%)	NMF	2.7	.03	.16	26	6/30	.02(b)	d.47(b)	3/31	◆.04(b)	.18(b)	YES	
610 TransCanada Corp.	TRP	47.27	2 2 2	1.00	60- 85	(25- 80%)	27.6	4.8	1.71	2.26	8	6/30	.41	.43	9/30	.565	.375	YES	
726 TransDigm Group	TDG	282.08	4 3 3	.95	230- 350	(N- 25%)	26.0	NIL	10.86	NIL	59	6/30	2.52	1.75	9/30	NIL	NIL	YES	
2439 Transocean Ltd.	RIG	9.90	3 5 3	1.50	12- 20	(20-100%)	NMF	NIL	d.13	NIL	5	6/30	.21	1.11	9/30	NIL	.15	YES	
455 TransUnion	TRU	32.93	- 3 -	NMF	30- 45	(N- 35%)	50.7	NIL	.65	NIL	74	6/30	.09	d.02	9/30	NIL	NIL	YES	
★ 772 Travelers Cos.	TRV	115.18	4 1 3	.85	130- 160	(15- 40%)	11.8	2.3	9.75	2.68	46	6/30	2.20	2.52	9/30	.67	.61	YES	
582 Tredegar Corp.	TG	18.25	2 3 2	1.45	20- 30	(10- 65%)	22.0	2.7	.83	.50	62	6/30	.10	.02	12/31	.11	.11	YES	
1938 TreeHouse Foods	THS	88.60	3 3 3	.65	100- 150	(15- 70%)	26.7	NIL	3.32	NIL	49	6/30	.54	.66	9/30	NIL	NIL	YES	
1118 Trex Co.	TREX	58.74	4 3 3	1.30	55- 80	(N- 35%)	29.8	NIL	1.97	NIL	89	6/30	.79	.59	9/30	NIL	NIL	YES	
1213 Tri-Continental	TY	20.93	- 2 3 -	.95	25- 35	(20- 65%)	NMF	3.8	NMF	.80	-	6/30	24.08(q)	24.89(q)	9/30	.234	.195	YES	
2351 Tribune Media Co.	TRCO	34.24	3 3 3	1.20	55- 80	(60-135%)	16.1	2.9	2.13	1.00	76	6/30	.42	.29	9/30	.25	.25	YES	
1775 TriMas Corp. (NDQ)	TRS	17.48	- 3 -	NMF	25- 40	(45-130%)	13.7	NIL	1.28	NIL	36	6/30	.34	.30	9/30	NIL	NIL	YES	
1315 Trimble Inc. (NDQ)	TRMB	29.30	1 3 3	1.30	30- 45	(N- 55%)	47.3	NIL	.62	NIL	27	6/30	.14	.10	9/30	NIL	NIL	YES	
NAME CHANGED TO TRIMBLE INC.																			
348 Trimble Nav. Ltd.	TRN	23.13	5 3 3	1.65	20- 30	(N- 30%)	11.8	1.9	1.96	.44	91	6/30	.62	1.33	12/31	.11	.11	YES	
2452 Trinseo S.A.	TSE	55.95	- 3 -	NMF	75- 115	(35-105%)	9.4	2.1	5.94	1.20	88	6/30	2.00	.02	12/31	.30	NIL	YES	
2642 TripAdvisor, Inc. (NDQ)	TRIP	63.19	2 3 4	1.15	85- 130	(35-105%)	59.1	NIL	1.07	NIL	32	6/30	.23	.40	9/30	NIL	NIL	YES	
727 Triumph Group	TGI	24.25	3 3 3	1.15	45- 65	(85-170%)	5.4	0.7	4.50	.16	59	6/30	1.04	1.31	9/30	.04	.04	YES	
2391 tronc, Inc. (NDQ)	TRNC	17.07	- 4 -	NMF	25- 45	(45-165%)	16.0	NIL	1.07	NIL	-	6/30	.12	.13	9/30	NIL	.175	YES	
2657 Tumi Holdings	TUMI																		
SEE FINAL SUPPLEMENT - PAGE 2657																			
1200 Tupperware Brands	TUP	64.57	3 3 2	1.10	85- 130	(30-100%)	14.7	4.2	4.39	2.72	28	9/30	◆.96	.72	12/31	.68	.68	YES	
2352 Twenty-First Century Fox(NDQ)	FOXA	24.96	3 3 5	1.10	45- 65	(80-160%)	12.7	1.4	1.96	.36	76	6/30	.30	.39	12/31	▲.18	.15	YES	
2033 2643 Twitter Inc.	TWTR	16.83	3 4 4	1.05	15- 25	(N- 50%)	NMF	NIL	d.58	NIL	32	6/30	d.15	d.21	9/30	NIL	NIL	YES	
1035 Tyco Int'l plc	TYC																		
1939 Tyson Foods 'A'	TSN	71.56	5 3 3	.75	65- 95	(N- 35%)	15.2	1.0	4.70	.68	49	6/30	1.25	.83	12/31	.15	.15	YES	
1544 UDR, Inc.	UDR	33.76	3 3 3	.80	40- 60	(20- 80%)	NMF	3.9	.26	1.33	50	6/30	.06	.33	12/31	.295	.278	YES	
553 UGI Corp.	UGI	44.71	3 2 2	.90	30- 35	(N- N%)	20.5	2.1	2.18	.95	41	6/30	.23	.03	12/31	.238	.228	YES	
419 US Ecology (NDQ)	ECOL	43.10	3 3 2	.85	45- 70	(5- 60%)	23.2	1.7	1.86	.72	24	6/30	.37	.40	12/31	.18	.18	YES	
1940 US Foods Hldg.	USFD	22.92	- 3 -	NMF	25- 35	(10- 55%)	15.9	NIL	1.44	NIL	49	6/30	.45	NA	9/30	NIL	NIL	YES	
850 1119 USG Corp.	USG	26.46	5 5 3	1.65	30- 55	(15-110%)	14.1	NIL	1.87	NIL	89	6/30	.46	.53	9/30	NIL	NIL	YES	
598 Ubiquiti Networks (NDQ)	UBNT	49.53	4 3 3	.95	50- 75	(N- 50%)	17.8	NIL	2.79	NIL	77	6/30	.69	.49	9/30	NIL	NIL	YES	
2194 Ulta Salon (NDQ)	ULTA	256.04	4 3 3	.95	▲ 290- 435	(15- 70%)	38.8	NIL	6.60	NIL	61	7/31	1.43	1.15	9/30	NIL	NIL	YES	
1828 Ultimate Software Group(NDQ)	ULTI	204.05	3 3 2	1.10	255- 385	(25- 90%)	59.1	NIL	3.45	NIL	65	6/30	.76	.62	9/30	NIL	NIL	YES	
135 Ultratech, Inc. (NDQ)	UTEK	22.90	1 3 1	1.10	25- 35	(10- 55%)	57.3	NIL	4.40	NIL	23	6/30	.10	.05	9/30	NIL	NIL	YES	
2115 Under Armour	UA	38.30	4 3 4	1.15	▼ 45- 70	(15- 85%)	62.8	NIL	▼.61	NIL	86	6/30	.01	.04	9/30	NIL	NIL	YES	
2116 Unifi, Inc.	UFI	29.18	4 3 4	1.00	35- 55	(20- 90%)	16.2	NIL	▼1.80	NIL	86	6/30	.56	.53	9/30	NIL	NIL	YES	
411 UniFirst Corp.	UNF	130.80	3 2 3	1.00	120- 165	(N- 25%)	22.8	0.1	5.74	.15	69	8/31	◆1.27	1.43	9/30	.038	.038	YES	
1941 Unilever PLC ADR(g)	UL	42.86	2 1 2	.90	50- 60	(15- 40%)	21.4	3.3	2.00	1.42	49	6/30	.98(p)	.95(p)	12/31	▲.355	.344	YES	
349 Union Pacific	UNP	96.72	3																



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RANKS

Industry Rank

Do Options Trade?

NAME OF STOCK	Ticker Symbol	Recent Price			Timeliness	Safety		Technical Beta	3-5 year Target Price Range and % appreciation potential	Current P/E Ratio	% Est'd Yield next 12 mos.	Est'd Earnings 12 mos. to 3-31-17	(f) Est'd Div'd next 12 mos.	LATEST RESULTS						
		Qtr. Ended	Earnings Per sh.	Year Ago		Qtr. Ended	Latest Div'd							Year Ago	Do Options Trade?					
															Yes	No				
461 2221 Urban Outfitters (NDO)	URBN	33.26	3	3	1	.90	50- 80	(50-140%)	15.5	NIL	2.15	NIL	63	7/31	.66	.52	9/30	NIL	NIL	YES
816 VCA Inc. (NDO)	WVDF	68.99	3	3	3	1.05	65- 100	(N- 45%)	24.8	NIL	2.78	NIL	70	6/30	.78	.70	9/30	NIL	NIL	YES
227 VWR Corp. (NDO)	VWR	28.04	3	3	2	.90	30- 50	(5- 80%)	16.0	NIL	1.75	NIL	39	6/30	.32	.14	9/30	NIL	NIL	YES
2117 V.F. Corp.	VFC	54.48	4	2	3	1.00	70- 100	(30- 85%)	16.4	2.7	3.32	1.48	86	6/30	.35	.40	9/30	.37	.32	YES
2373 Vail Resorts	MTN	155.27	4	3	2	.90	125- 190	(N- 20%)	32.6	2.1	4.76	3.24	80	7/31	d1.80	d1.92	12/31	.81	.623	YES
1593 Vale S.A. ADR	VALE	5.84	3	5	3	1.55	9- 16	(55-175%)	14.2	NIL	.41	NIL	2	6/30	.14	.25	9/30	NIL	NIL	YES
238 1632 Valeant Pharm. Int'l	VRX	22.07	3	5	3	1.00	75- 135	(240-510%)	3.1	NIL	7.03	NIL	45	6/30	1.40	2.56	9/30	NIL	NIL	YES
520 Valero Energy	VLO	55.46	4	3	5	1.30	60- 90	(10- 60%)	12.5	4.3	4.45	2.40	18	6/30	1.73	2.66	9/30	.60	.40	YES
2029 Validus Holdings	VR	51.57	3	2	3	.70	50- 70	(N- 35%)	11.8	2.7	4.37	1.40	33	6/30	1.14	.77	9/30	.35	.32	YES
1777 Valmont Inds.	VMI	129.35	2	3	2	1.05	125- 190	(N- 45%)	20.2	1.2	6.40	1.50	36	6/30	1.85	1.20	12/31	.375	.375	YES
583 Valspar Corp.	VAL	105.02	-	3	-	1.00	90- 140	(N- 35%)	21.4	1.3	4.91	1.32	62	7/31	1.44	1.25	9/30	.33	.30	YES
2575 Vantiv Inc.	VNTV	56.50	3	3	4	1.00	65- 100	(15- 75%)	34.2	NIL	1.65	NIL	58	6/30	.38	.24	9/30	NIL	NIL	YES
194 Varian Medical Sys.	VAR	96.38	-	1	-	1.00	110- 135	(15- 40%)	21.3	NIL	4.53	NIL	48	6/30	1.04	1.13	9/30	NIL	NIL	YES
916 Vectren Corp.	VVC	48.82	3	2	3	.75	45- 60	(N- 25%)	19.6	3.4	2.49	1.66	16	6/30	.39	.43	9/30	.40	.38	YES
136 Veeco Instruments (NDO)	VECO	21.45	2	4	4	1.20	16- 25	(N- 15%)	NMIF	NIL	d.41	NIL	23	6/30	d.19	.20	9/30	NIL	NIL	YES
1545 Ventas, Inc.	VTR	67.66	2	3	2	.75	65- 95	(N- 40%)	36.4	4.4	1.86	2.98	50	6/30	.42	.40	9/30	.73	.73	YES
846 2222 Vera Bradley Inc. (NDO)	VRA	13.87	3	3	3	1.15	25- 35	(80-150%)	14.8	NIL	.94	NIL	63	7/31	.14	.15	9/30	NIL	NIL	YES
962 Verifone Systems	PAY	15.14	3	4	3	1.45	30- 55	(100-265%)	9.5	NIL	1.60	NIL	37	7/31	.42	.47	9/30	NIL	NIL	YES
2644 VeriSign Inc. (NDO)	VRNS	75.69	3	3	3	.85	90- 130	(20- 70%)	21.3	NIL	3.55	NIL	32	6/30	.87	.70	9/30	NIL	NIL	YES
456 Verisk Analytics (NDO)	VRSK	80.34	4	2	3	.80	85- 115	(5- 45%)	30.0	NIL	2.68	NIL	74	6/30	.62	.90	9/30	NIL	NIL	YES
★ ★ 936 Verizon Communic. (NDO)	VZ	50.27	4	1	2	.70	70- 85	(40- 70%)	12.7	4.6	3.95	2.31	71	6/30	.94	1.04	9/30	.565	.55	YES
842 Vertex Pharm. (NDO)	VRTX	82.96	3	3	3	1.00	145- 215	(75-160%)	NMIF	NIL	.02	NIL	40	6/30	d.26	d.78	9/30	NIL	NIL	YES
1426 2353 Viacom Inc. 'B' (NDO)	VIAB	36.14	▲	3	3	1.10	85- 125	(135-245%)	8.4	2.2	4.28	.80	76	6/30	1.05	1.47	12/31	▼.20	.40	YES
1778 Viad Corp.	VVI	35.65	3	3	3	1.00	35- 55	(N- 55%)	13.7	1.1	2.61	.40	36	6/30	1.04	1.18	12/31	.10	.10	YES
599 ViaSat, Inc. (NDO)	VSAT	73.05	3	3	2	1.05	60- 90	(N- 25%)	NMIF	NIL	.50	NIL	77	6/30	1.04	.05	9/30	NIL	NIL	YES
1347 Viavi Solutions (NDO)	VIAV	7.27	-	4	-	NMIF	8- 13	(10- 80%)	18.2	NIL	.40	NIL	56	6/30	.10	.13	9/30	NIL	NIL	YES
2463 1960 Village Super Market (NDO)	VLGEA	31.90	3	3	3	.85	40- 55	(25- 70%)	16.0	3.1	2.00	1.00	79	7/31	.60	.49	12/31	.25	.25	YES
2576 Visa Inc.	V	81.58	4	1	3	.95	95- 115	(15- 40%)	27.3	0.8	2.99	.66	58	6/30	.69	.69	12/31	▲.165	.14	YES
1348 Vishay Intertechnology	VSH	13.95	3	3	3	1.45	12- 19	(N- 35%)	16.2	1.8	.86	.25	56	6/30	.23	.20	9/30	.063	.06	YES
1004 Visteon Corp.	VC	65.73	-	3	-	NMIF	55- 80	(N- 30%)	27.3	NIL	2.41	NIL	93	6/30	1.22	1.36	9/30	NIL	YES	
2195 Vitamin Shoppe	VSI	26.85	3	3	4	.90	40- 65	(50-140%)	13.7	NIL	1.96	NIL	61	6/30	.44	.48	9/30	NIL	NIL	YES
2600 VMware, Inc.	VMW	73.13	3	3	2	1.15	75- 115	(5- 55%)	16.7	NIL	4.37	NIL	14	6/30	.97	.93	9/30	NIL	NIL	YES
937 Vodafone Group ADR(g)(NDO)	VOD	28.15	3	3	3	1.15	40- 60	(40-115%)	33.1	4.6	8.57	1.30	71	3/31	.35(p)	.43(p)	9/30	1.024	1.191	YES
938 Vonage Holdings	VG	6.25	5	4	2	1.05	5- 8	(N- 30%)	20.8	NIL	.30	NIL	71	6/30	.08	.09	9/30	NIL	NIL	YES
1546 Vornado R'lty Trust	VNO	96.11	3	3	2	1.00	110- 165	(15- 70%)	23.1	2.7	4.16	2.63	50	6/30	1.16	.87	9/30	.63	.63	YES
1121 Vulcan Materials	VMC	111.62	3	3	3	1.20	110- 165	(N- 50%)	32.8	0.7	3.40	.80	89	6/30	.93	.37	12/31	◆.20	.10	YES
1005 WABCO Hldgs. (NDO)	WBC	106.87	3	3	3	1.35	110- 160	(5- 50%)	19.6	NIL	5.44	NIL	93	6/30	1.33	1.12	9/30	NIL	NIL	YES
1201 WD-40 Co.	WDFC	109.15	3	2	2	.75	75- 105	(N- N%)	30.6	1.6	3.57	1.80	28	5/31	.88	.75	12/31	.42	.38	YES
917 WEG Energy Group	WEC	58.30	3	1	3	.65	50- 65	(N- 10%)	19.4	3.5	3.01	2.06	16	6/30	.57	.35	9/30	.495	.44	YES
554 WGL Holdings Inc.	WGL	61.40	2	1	3	.75	45- 55	(N- N%)	19.2	3.2	3.20	1.95	41	6/30	.33	.22	12/31	.488	.463	YES
1547 W.P. Carey Inc.	WPC	62.25	3	3	2	.85	75- 110	(20- 75%)	28.8	6.3	2.16	3.94	50	6/30	.48	.60	12/31	▲.985	.955	YES
2400 WPP PLC ADR (NDO)	WPPGY	110.86	3	2	3	1.20	140- 190	(25- 70%)	17.6	2.8	6.30	3.15	66	12/31	3.80(p)	3.87(p)	9/30	2.116	2.057	YES
542 WPX Energy	WPX	12.39	3	5	1	1.90	11- 20	(N- 60%)	NMIF	NIL	d.13	NIL	13	6/30	d.76	d.12	9/30	NIL	NIL	YES
169 Wabash National	WNC	13.45	5	4	3	1.65	19- 30	(40-125%)	7.6	NIL	1.78	NIL	55	6/30	.55	.33	9/30	NIL	NIL	YES
1733 Wabtec Corp.	WAB	80.81	4	3	4	1.20	85- 130	(5- 60%)	19.5	0.5	4.15	.40	68	6/30	1.05	1.04	9/30	▲.10	.08	YES
462 2152 Wal-Mart Stores (NDO)	WMT	68.87	2	1	2	.65	80- 95	(15- 40%)	15.7	2.9	4.38	2.03	57	7/31	1.07	1.08	9/30	.50	.49	YES
973 Walgreens Boots (NDO)	WBA	78.08	4	2	3	.90	100- 140	(30- 80%)	16.4	1.9	4.76	1.50	84	5/31	1.18	1.02	12/31	◆.375	.36	YES
1510 Washington Federal (NDO)	WAFD	26.68	3	3	3	.95	25- 35	(N- 30%)	14.6	2.1	1.83	.56	29	9/30	◆.49	.45	9/30	.14	.13	YES
1548 Washington R.E.I.T.	WRE	30.25	3	3	3	.85	25- 40	(N- 30%)	47.3	4.0	.64	1.20	50	6/30	.44	d.04	9/30	.30	.30	YES
420 Waste Connections	WCN	74.55	3	2	2	.75	95- 125	(25- 70%)	27.2	0.9	2.74	.66	24	6/30	.59	.46	9/30	.145	.13	YES
421 Waste Management	WM	62.54	3	1	3	.75	70- 85	(10- 35%)	21.5	2.7	2.91	1.68	24	6/30	.74	.67	9/30	.41	.385	YES
137 Waters Corp.	WAT	156.74	2	2	3	1.00	130- 175	(N- 10%)	23.1	NIL	6.80	NIL	23	6/30	1.57	1.27	9/30	NIL	NIL	YES
1145 Wattsco, Inc.	WSO	141.35	4	2	3	.95	125- 170	(N- 20%)	26.2	3.0	5.39	4.20	72	6/30	1.82	1.85	12/31	▲1.05	.70	YES
1734 Watts Water Techn. (NDO)	WTS	62.50	3	3	2	1.20	60- 85	(N- 35%)	22.9	1.2	2.73	.74	68	6/30	.75	.69	9/30	.18	.17	YES
2440 Weatherford Int'l plc (NDO)	WFT	5.91	1	4	4	1.80	15- 25	(155-325%)	NMIF	NIL	d.19	NIL	5	6/30	d.63	d.63	9/30	NIL	NIL	YES
824 WebMD Health (NDO)	WBMD	50.04	▼	3	4	2.00	60- 95	(20- 90%)	27.2	NIL	1.84	NIL	11	6/30	.39	.28	9/30	NIL	NIL	YES
2529 Webster Fin'l	WBS	37.41	3	3	3	1.20	30- 45	(N- 20%)	17.1	2.7	2.19	1.00	51	6/30	.53	.55	9/30	.25	.23	YES
237 2196 Weight Watchers (NDO)	WTW	10.18	1	5	4	1.25	18- 35	(75-245%)	9.5	NIL	1.07	NIL	61	6/30	.46	.49	9/30	NIL	NIL	YES
1549 Weingarten Realty	WRI	37.95																		

PAGE NUMBERS

Bold type refers to Ratings and Reports

NAME OF STOCK	Ticker Symbol	RANKS					3-5 year Target Price Range and % appreciation potential	Current P/E Ratio	% Est'd Yield next 12 mos.	Est'd Earnings 12 mos. to 3-31-17	(f) Est'd Div'd next 12 mos.	LATEST RESULTS					Do Options Trade?			
		Recent Price		Timeliness	Safety							Beta	Qtr. Ended	Earnings Per sh.	Year Ago	Qtr. Ended		Latest Div'd	Year Ago	
		Price	Change		1	2														3
2465 1963 Whole Foods Market (NDQ)	WFM	28.21		4	3	3	.90	40- 55 (40- 95%)	19.5	2.1	1.45	.58	79	6/30	.37	.43	9/30	.135	.13	YES
2384 Wiley (John) & Sons	JWA	51.30		2	3	3	.95	55- 80 (5- 55%)	17.1	2.4	3.00	1.24	54	7/31	.52	.58	12/31	.31	.30	YES
611 Williams Cos.	WMB	29.24	▲	2	3	3	1.70	30- 45 (5- 55%)	40.6	2.7	.72	.80	8	6/30	.19	.15	9/30	▼.20	.64	YES
625 Williams Partners L.P.	WPZ	36.79		2	4	2	1.30	40- 65 (10- 75%)	21.0	9.2	1.75	3.40	6	6/30	d.49	.14	9/30	.85	.85	YES
2198 Williams-Sonoma	WSM	46.97		4	3	4	1.05	75- 115 (60-145%)	13.3	3.2	3.53	1.52	61	7/31	.58	.58	12/31	.37	.35	YES
1034 Windstream Hldgs. (NDQ)	WIN	8.40		-	4	-	NMF	5- 8 (N- N%)	NMF	7.1	d1.88	.60	30	6/30	.01	d1.13	12/31	.15	.15	YES
1842 2328 Winnebago	WGO	28.29		3	3	3	1.20	30- 45 (5- 55%)	16.0	1.4	1.77	.40	85	8/31	◆.49	.43	12/31	◆.10	.10	YES
791 Wintrust Financial (NDQ)	WTFC	54.51		3	3	2	1.05	55- 85 (N- 55%)	15.4	0.9	3.53	.48	19	9/30	◆.92	.69	9/30	.12	.11	YES
2161 Wolverine World Wide	WWW	21.26		3	3	2	1.00	30- 40 (40- 90%)	15.5	1.1	1.37	.24	81	9/30	◆.49	.48	12/31	.06	.06	YES
138 Woodward, Inc. (NDQ)	WWD	59.28		3	3	2	1.20	70- 105 (20- 75%)	19.5	0.7	3.04	.44	23	6/30	.81	.66	12/31	.11	.10	YES
1829 Workday, Inc.	WDAY	86.54		3	3	2	1.30	110- 170 (25- 95%)	NMF	NIL	d1.74	NIL	65	7/31	d.55	d.37	9/30	NIL	NIL	YES
612 World Fuel Services	INT	45.98	▲	2	3	2	1.05	55- 80 (20- 75%)	16.7	0.5	2.75	.24	8	6/30	.43	.42	9/30	.06	.06	YES
2354 World Wrestling Ent.	WWE	19.82		3	4	2	1.00	25- 40 (25-100%)	47.2	2.4	.42	.48	76	6/30	.01	.07	9/30	.12	.12	YES
752 Worthington Inds.	WOR	47.69		4	3	3	1.30	45- 65 (N- 35%)	20.1	1.7	2.37	.80	7	8/31	1.02	.48	12/31	.20	.19	YES
2374 Wyndham Worldwide	WYN	68.22		4	3	4	1.10	80- 120 (15- 75%)	12.1	2.9	5.66	2.00	80	6/30	1.39	1.31	9/30	.50	.42	YES
2375 Wynn Resorts (NDQ)	WYNN	92.98		2	3	1	1.50	145- 220 (55-135%)	30.4	2.2	3.06	2.00	80	6/30	.69	.56	9/30	.50	.50	YES
773 XL Group Ltd.	XL	34.40		3	3	4	.95	40- 55 (15- 60%)	13.6	2.3	2.53	.80	46	6/30	.37	.84	9/30	.20	.20	YES
XL Group plc NAME CHANGED TO XL GROUP LTD.																				
2645 XO Group	XOXO	18.83		3	3	3	.80	20- 30 (5- 60%)	41.8	NIL	.45	NIL	32	6/30	.15	.13	9/30	NIL	NIL	YES
2237 Xcel Energy Inc.	XEL	40.54		2	1	3	.60	40- 45 (N- 10%)	17.9	3.5	2.27	1.42	31	6/30	.39	.39	12/31	.34	.32	YES
139 Xcerra Corp. (NDQ)	XCRA	5.80		3	4	4	1.25	8- 13 (40-125%)	24.2	NIL	.24	NIL	23	7/31	.15	.15	9/30	NIL	NIL	YES
1423 Xerox Corp.	XRX	9.71		-	3	-	1.25	11- 17 (15- 75%)	10.4	3.2	.93	.31	20	6/30	.20	.17	12/31	.078	.07	YES
1382 Xilinx Inc. (NDQ)	XLNX	50.13		3	3	2	1.05	50- 75 (N- 50%)	22.8	2.6	2.20	1.32	75	6/30	.61	.55	9/30	.33	.31	YES
1735 Xylem Inc.	XYL	49.15		2	3	2	1.05	45- 65 (N- 30%)	24.2	1.3	2.03	.62	68	6/30	.39	.41	12/31	◆.155	.141	YES
2465 2646 Yahoo! Inc. (NDQ)	YHOO	41.68		-	3	-	1.00	40- 60 (N- 45%)	NMF	NIL	d.25	NIL	32	9/30	◆.17	.08	9/30	NIL	NIL	YES
1579 Yamana Gold	AUY	3.79		2	5	3	1.15	4- 8 (5-110%)	25.3	0.5	.15	.02	3	6/30	.01	d.01	9/30	.005	.015	YES
238 2647 Yelp, Inc.	YELP	35.80		1	4	3	1.50	20- 35 (N- N%)	NMF	NIL	d.35	NIL	32	6/30	.01	d.02	9/30	NIL	NIL	YES
1789 York Water Co. (The) (NDQ)	YORW	30.85		3	3	3	.70	25- 35 (N- 15%)	30.9	2.0	1.00	.62	43	6/30	.23	.22	9/30	.156	.15	YES
378 Yum! Brands	YUM	86.16		-	3	-	.95	80- 120 (N- 40%)	23.5	2.4	3.67	2.04	87	9/30	1.09	1.00	12/31	▲.51	.46	YES
963 Zayo Group Holdings	ZAYO	31.29		-	3	-	1.05	30- 40 (N- 30%)	NMF	NIL	NIL	NIL	37	6/30	NIL	.05	9/30	NIL	NIL	YES
601 Zebra Techn. 'A' (NDQ)	ZBRA	65.36		4	3	4	1.15	90- 140 (40-115%)	11.4	NIL	5.74	NIL	77	6/30	1.34	1.05	9/30	NIL	NIL	YES
1830 Zendesk Inc.	ZEN	26.22		3	4	1	1.15	30- 50 (15- 90%)	NMF	NIL	d.40	NIL	65	6/30	d.28	d.25	9/30	NIL	NIL	YES
2648 Zillow Group 'C' (NDQ)	Z	33.58		2	3	3	1.25	25- 40 (N- 20%)	NMF	NIL	d.58	NIL	32	6/30	d.87	d.22	9/30	NIL	NIL	YES
195 Zimmer Biomet Hldgs.	ZBH	129.10		5	1	3	1.00	160- 200 (25- 55%)	15.6	0.8	8.30	1.00	48	6/30	2.02	1.16	12/31	.24	.22	YES
2531 Zions Bancorp. (NDQ)	ZION	31.17		3	3	3	1.30	30- 45 (N- 45%)	15.9	1.1	1.96	.33	51	6/30	.44	d.01	9/30	▲.08	.06	YES
1633 Zoetis Inc.	ZTS	51.06	▼	4	3	3	1.00	50- 70 (N- 35%)	25.9	0.7	1.97	.38	45	6/30	.49	.43	12/31	.095	.083	YES
1842 2223 Zumiez Inc. (NDQ)	ZUMZ	21.80		3	3	5	1.10	▲ 30- 45 (40-105%)	26.9	NIL	▲.81	NIL	63	7/31	d.03	.12	9/30	NIL	NIL	YES
2018 Zynga Inc. (NDQ)	ZNGA	2.82		3	5	3	1.00	4- 7 (40-150%)	NMF	NIL	d.09	NIL	44	6/30	d.01	d.03	9/30	NIL	NIL	YES

(●) All data adjusted for announced stock split or stock dividend. See back page of Ratings & Reports.  
 ◆ New figure this week.  
 (b) Canadian Funds.  
 (d) Deficit.

(f) The estimate may reflect a probable increase or decrease. If a dividend boost or cut is possible but not probable, two figures are shown, the first is the more likely.  
 (g) Dividends subject to foreign withholding tax for U.S. residents.

(h) Est'd Earnings & Est'd Dividends after conversion to U.S. dollars at Value Line estimated translation rate.  
 (j) All Index data expressed in hundreds.  
 (p) 6 months (q) Asset Value  
 N=Negative figure NA=Not available NMF=No meaningful figure



**INDUSTRIES, IN ORDER OF TIMELINESS RANK\***

Arrow (▲▼) before name indicates that a **significant change in Rank** has occurred since the preceding week.

1 Public/Private Equity	26 Power	51 Bank	76 Entertainment
2 Metals & Mining (Div.)	27 Electrical Equipment	52 Foreign Electronics	77 Wireless Networking
3 Precious Metals	28 Household Products	53 Maritime	78 Human Resources
4 Chemical (Basic)	29 Thrift	54▼ Publishing	79 Retail/Wholesale Food
5 Oilfield Svcs/Equip.	30 Telecom. Utility	55 Heavy Truck & Equip	80 Hotel/Gaming
6 Pipeline MLPs	31 Electric Utility (West)	56 Electronics	81 Shoe
7 Steel	32 Internet	57 Retail Store	82▼ Packaging & Container
8▲ Oil/Gas Distribution	33 Reinsurance	58 Financial Svcs. (Div.)	83 Computers/Peripherals
9 Petroleum (Producing)	34▼ Funeral Services	59 Aerospace/Defense	84 Pharmacy Services
10▲ Investment Banking	35 Engineering & Const	60 Automotive	85 Recreation
11 Healthcare Information	36 Diversified Co.	61 Retail (Hardlines)	86 Apparel
12 Electric Utility (East)	37 Telecom. Equipment	62 Chemical (Specialty)	87 Restaurant
13 Natural Gas (Div.)	38 Beverage	63 Retail (Softlines)	88 Chemical (Diversified)
14 Computer Software	39 Med Supp Non-Invasive	64 IT Services	89 Building Materials
15 Tobacco	40 Biotechnology	65 E-Commerce	90 Homebuilding
16 Electric Util. (Central)	41▼ Natural Gas Utility	66 Advertising	91 Railroad
17 Metal Fabricating	42 Paper/Forest Products	67 Semiconductor Equip	92 Air Transport
18 Petroleum (Integrated)	43 Water Utility	68 Machinery	93 Auto Parts
19 Bank (Midwest)	44 Entertainment Tech	69 Industrial Services	94 Trucking
20 Office Equip/Supplies	45 Drug	70 Medical Services	95 Retail Automotive
21 Toiletries/Cosmetics	46 Insurance (Prop/Cas.)	71 Telecom. Services	96 Furn/Home Furnishings
22 Insurance (Life)	47 Brokers & Exchanges	72 Retail Building Supply	
23 Precision Instrument	48 Med Supp Invasive	73 Cable TV	
24 Environmental	49 Food Processing	74 Information Services	
25▲ Educational Services	50 R.E.I.T.	75 Semiconductor	

\*Based on the Timeliness™ ranks of the stocks in the industry

**Noteworthy Rank Changes**

Listed below are some of the stocks whose Timeliness ranks have changed this week. We include mostly rank changes caused by fundamentals such as new earnings reports. Even when a significant change in earnings momentum has been forecast, the stock's rank will not be affected until the actual results, confirming that forecast, are reported. In most cases, we omit stocks that have been bumped up or down in rank by the dynamism of the ranking system.

**STOCKS MOVING UP IN TIMELINESS RANK**

Stock Name	Old Rank	New Rank	Reason for Change	Earnings Est. 12 months to 3-31-17
BancorpSouth	4	3	Earnings turnaround. Sept. quarter 40¢ vs. year ago 36¢. Our estimate was 43¢.	Under Review
Bank of America	4	3	Surprise factor, greater than average gain. Sept. quarter 41¢ vs. year ago 35¢. Our estimate was 36¢.	\$1.41
Bank of New York Mellon	4	3	Greater than average gain. Sept. quarter 90¢ vs. year ago 74¢. Our estimate was 84¢.	Under Review
Comerica Inc.	3	2	Greater than average gain. Sept. quarter 84¢ vs. year ago 74¢. Our estimate was 78¢.	2.91
East West Bancorp	4	3	Greater than average gain. Sept. quarter 76¢ vs. year ago 65¢. Our estimate was 70¢.	Under Review
Goldman Sachs (B)	3	2	Greater than average gain. Sept. period \$4.88 vs. year ago \$2.90. Our estimate was \$5.00.	17.82
Morgan Stanley	4	3	Surprise factor, earnings turnaround. Sept. quarter 80¢ vs. year ago 49¢. Our estimate was 70¢.	3.25

**STOCKS MOVING DOWN IN TIMELINESS RANK**

Stock Name	Old Rank	New Rank	Reason for Change	Earnings Est. 12 months to 3-31-17
AngioDynamics	1	2	Dynamism of the ranking system.	
Bio-Techne Corp.	1	2	Dynamism of the ranking system.	
Black Box	1	2	Dynamism of the ranking system.	
Cabot Oil & Gas 'A'	1	2	Dynamism of the ranking system.	
CLARCOR Inc.	1	2	Dynamism of the ranking system.	
Enerplus Corp.	1	2	Dynamism of the ranking system.	
Ethan Allen Interiors	3	4	Surprise factor, earnings reversal. Management forecasts 42-43¢ for the Sep. quarter vs. year ago 46¢. Our estimate was 53¢.	Under Review
Forrester Research	1	2	Dynamism of the ranking system.	
Group 1 Automotive	4	5	Decreasing profit growth. Sept. quarter \$1.96 vs. year ago \$1.91. Our estimate was \$2.05.	(A)
IDEX Corp. (B)	3	5	Decreasing profit growth. Sept. quarter 92¢ vs. year ago 85¢. Our estimate was 93¢.	Under Review
MSC Industrial Direct	1	2	Dynamism of the ranking system.	
RPC Inc.	1	2	Dynamism of the ranking system.	

**STOCKS MOVING DOWN IN TIMELINESS RANK**

Stock Name	Old Rank	New Rank	Reason for Change	Earnings Est. 12 months to 3-31-17
Reliance Steel (B)	2	3	Surprise factor, earnings reversal. Management forecasts 65-75¢ for the Dec. quarter vs. year ago 94¢. Our estimate was \$1.09.	\$4.57
South Jersey Inds.	1	2	Dynamism of the ranking system.	
SurModics, Inc.	1	2	Dynamism of the ranking system.	
Textron, Inc.	3	4	Surprise factor, earnings reversal. Sept. period 61¢ vs. year ago 63¢. Our estimate was 69¢.	Under Review
3D Systems	1	2	Dynamism of the ranking system.	

(A) New full-page report in this week's Ratings & Reports.  
(B) Supplementary report in this week's Ratings & Reports.

**TIMELY STOCKS IN TIMELY INDUSTRIES**

Page No.	Industry (Industry Rank)	RANKS				Current P/E	% Est'd Yield	Est'd. 3-5 Year Price Apprec.	Page No.	Industry (Industry Rank)	RANKS				Current P/E	% Est'd Yield	Est'd. 3-5 Year Price Apprec.		
		Recent Price	Technical	Safety	Beta						Recent Price	Technical	Safety	Beta					
<b>Public/Private Equity (INDUSTRY RANK 1)</b>								<b>Steel (INDUSTRY RANK 7)</b>											
2651	Apollo Global Mgmt	17.61	2	3	3	1.30	6.7	8.4	40-100%	740	ArcelorMittal	6.36	1	4	4	1.70	13.3	NIL	25-105%
2652	Apollo Investment	5.89	2	3	3	0.95	29.5	10.2	35- 85%	742	Cliffs Natural Res.	5.78	2	5	3	1.80	11.8	NIL	40-160%
2653	Blackstone Group LP	23.61	1	3	3	1.40	9.9	6.1	90-195%	745	Nucor Corp.	47.15	2	3	2	1.25	19.4	3.2	40-110%
2655	Gladstone Capital	8.60	2	3	3	1.05	9.7	9.8	65-135%	746	POSCO ADR	52.91	2	3	3	1.10	18.9	3.4	40-115%
2656	KKR & Co. L.P.	13.72	1	3	3	1.40	4.4	4.7	120-230%	748	Russel Metals	20.77	1	3	3	1.00	18.5	7.3	20- 70%
										749	Schnitzer Steel	21.75	1	3	3	1.45	42.6	3.4	15- 60%
										751	U.S. Steel Corp.	17.17	1	5	2	1.80	NMF	1.2	5-105%
<b>Metals &amp; Mining (Div.) (INDUSTRY RANK 2)</b>								<b>Oil/Gas Distribution (INDUSTRY RANK 8)</b>											
1582	Allegheny Techn.	16.92	1	4	4	1.85	NMF	1.9	10- 75%	603	Cheniere Energy	41.61	2	4	3	1.55	NMF	NIL	45-140%
1584	BHP Billiton Ltd. ADR	34.49	1	3	5	1.40	NMF	1.7	N- 30%	607	ONEOK Inc.	50.03	1	3	3	1.30	27.8	5.1	N- 40%
1585	Cameco Corp.	10.50	2	3	3	1.20	11.8	3.8	90-185%	608	Pembina Pipeline Corp.	40.92	2	3	3	0.90	35.0	4.7	N- 45%
1586	CONSOL Energy	18.63	2	4	3	1.50	NMF	NIL	60-170%	610	TransCanada Corp.	47.27	2	2	2	1.00	27.6	4.8	25- 80%
1587	Freeport-McMoRan Inc.	9.72	1	4	3	1.80	16.5	NIL	155-260%	611	Williams Cos.	29.24	2	3	3	1.70	40.6	2.7	5- 55%
1590	Rio Tinto plc	32.55	2	3	4	1.45	16.3	4.9	25- 85%	612	World Fuel Services	45.98	2	3	2	1.05	16.7	0.5	20- 75%
1591	Southern Copper	26.63	1	3	4	1.25	22.4	0.9	50-105%										
1592	Teck Resources Ltd. 'B'	27.10	2	4	3	1.60	58.9	0.4	N- 50%										
<b>Precious Metals (INDUSTRY RANK 3)</b>								<b>Petroleum (Producing) (INDUSTRY RANK 9)</b>											
1565	Agnico Eagle Mines	48.01	2	3	2	0.75	87.3	0.8	5- 55%	2402	Anadarko Petroleum	62.97	2	3	5	1.60	NMF	0.3	5- 50%
1566	AngloGold Ashanti ADS	14.13	2	4	1	0.80	22.8	NIL	40-150%	2406	Continental Resources	51.56	2	3	2	1.80	NMF	NIL	N- 15%
1567	Barrick Gold	16.37	2	3	2	0.85	27.7	0.5	N- 55%	2407	Denbury Resources	2.77	2	5	3	2.00	NMF	NIL	45-190%
1568	Eldorado Gold	3.61	1	4	3	1.25	45.1	NIL	40-150%	2409	Marathon Oil Corp.	14.20	2	3	3	1.70	NMF	1.4	35-110%
1570	Goldcorp Inc.	14.86	2	3	2	0.80	49.5	0.8	100-170%	2410	Noble Energy	35.09	1	3	4	1.45	NMF	1.1	40-130%
1571	Kinross Gold	3.75	2	5	3	1.00	25.0	NIL	N- 60%	2412	Pioneer Natural Res.	184.03	2	3	3	1.45	NMF	NIL	N- 20%
1572	Newmont Mining	36.17	2	3	1	0.85	23.2	0.6	N- 40%	2413	Range Resources Corp.	38.07	2	3	3	1.20	NMF	0.2	N- 45%
1573	Pan Amer. Silver	16.42	2	4	2	1.10	26.1	0.3	5- 85%	2414	Whiting Petroleum	8.36	2	5	4	2.10	NMF	NIL	65-200%
1574	Pretium Resources	9.80	2	5	2	0.55	NMF	NIL	65-205%										
1575	Royal Gold	68.87	1	3	2	0.95	47.2	1.4	30- 95%										
1576	Silver Wheaton	24.08	1	3	1	1.20	29.0	0.8	5- 45%										
1577	Stillwater Mining	12.45	2	4	2	1.55	69.2	NIL	5- 60%										
1579	Yamana Gold	3.79	2	5	3	1.15	25.3	0.5	5-110%										
<b>Chemical (Basic) (INDUSTRY RANK 4)</b>								<b>Investment Banking (INDUSTRY RANK 10)</b>											
1596	CF Industries	23.46	2	3	4	1.40	27.9	5.8	30- 70%	1803	Goldman Sachs	172.63	2	2	4	1.30	9.7	1.5	40- 85%
1597	CVR Partners, LP	4.86	2	3	3	1.15	NMF	14.0	190-310%	1804	Greenhill & Co.	22.95	1	3	4	1.40	12.7	7.8	75-160%
1598	Compass Minerals Int'l	72.55	2	3	4	0.85	26.5	3.9	10- 65%	1809	Stifel Financial Corp.	38.40	2	3	4	1.30	14.6	NIL	45-120%
1601	FMC Corp.	47.22	2	3	2	1.25	16.7	1.5	N- 40%										
1602	Mosaic Company	23.39	2	3	3	1.35	37.7	5.3	50-135%										
<b>Oilfield Svcs/Equip. (INDUSTRY RANK 5)</b>								<b>Healthcare Information (INDUSTRY RANK 11)</b>											
2416	Baker Hughes	51.60	1	3	4	1.40	NMF	1.3	N- 45%	821	Computer Prog. & Sys.	26.21	1	3	5	0.85	23.2	5.2	55-130%
2417	CARBO Ceramics	10.56	1	4	3	1.45	NMF	NIL	185-375%	823	Quality Systems	12.27	1	3	4	0.95	49.1	NIL	45-145%
2418	Core Laboratories	111.99	1	3	4	1.15	60.5	2.0	25- 90%										
2421	Enscop plc	8.47	2	4	5	1.45	9.8	0.5	55-135%										
2423	Halliburton Co.	47.07	2	3	3	1.50	NMF	1.5	5- 60%										
2424	Helix Energy Solutions	9.53	2	4	5	1.95	NMF	NIL	15-100%										
2425	Helmerich & Payne	67.17	2	3	3	1.50	NMF	4.2	N- 20%										
2426	MRC Global	15.91	2	4	3	1.40	NMF	NIL	15- 90%										
2428	National Oilwell Varco	36.66	1	3	4	1.25	NMF	0.5	N- 50%										
2429	Noble Corp. plc	5.77	2	4	4	1.60	NMF	1.4	145-335%										
2430	Oceaneering Int'l	26.64	2	3	4	1.30	26.1	4.1	50-125%										
2432	RPC Inc.	18.64	2	3	4	1.55	NMF	NIL	N- 35%										
2434	Schlumberger Ltd.	81.39	1	2	3	1.30	74.0	2.5	35- 85%										
2436	Superior Energy Svcs.	18.07	2	4	3	1.70	NMF	NIL	N- 40%										
2437	TETRA Technologies	5.96	2	4	4	1.70	11.9	NIL	100-235%										
2440	Weatherford Int'l plc	5.91	1	4	4	1.80	NMF	NIL	155-325%										
<b>Pipeline MLPs (INDUSTRY RANK 6)</b>								<b>Natural Gas (Div.) (INDUSTRY RANK 13)</b>											
614	Boardwalk Pipeline	16.74	2	4	3	0.80	14.8	2.4	20-110%	523	Antero Resources Corp.	27.44	2	4	4	1.35	50.8	NIL	30-100%
617	Energy Transfer	36.44	2	3	3	1.10	24.6	11.6	25- 90%	524	Cabot Oil & Gas 'A'	22.11	2	3	1	1.10	NMF	0.4	35-105%
618	EnLink Midstream Part.	18.36	1	3	3	1.35	NMF	8.5	N- 65%	525	Chesapeake Energy	6.52	2	5	3	1.90	NMF	NIL	N- 55%
621	ONEOK Partners L.P.	41.87	2	3	3	1.00	18.0	7.5	20- 80%	529	EOG Resources	93.13	2	3	2	1.45	NMF	0.8	N- 8%
622	Plains All Amer. Pipe.	32.46	1	3	5	1.20	41.6	6.8	25- 85%	530	EQT Corp.	65.61	2	3	1	1.05	NMF	0.2	20- 85%
623	Suburban Propane	33.71	1	3	3	0.85	21.9	10.5	N- 50%	533	Enerplus Corp.	9.67	2	5	3	1.75	NMF	1.2	N- 75%
624	Sunoco Logistics Part.	26.89	2	3	3	1.30	24.0	7.4	50-105%	534	MDU Resources	25.04	2	2	3	1.00	21.2	3.0	20- 60%
625	Williams Partners L.P.	36.79	2	4	2	1.30	21.0	9.2	10- 75%	535	National Fuel Gas	52.93	1	3	1	1.05	NMF	3.1	50-115%
										541	Southwestern Energy	12.64	2	4	3	1.25	NMF	NIL	50-135%
<b>Computer Software (INDUSTRY RANK 14)</b>								<b>Computer Software (INDUSTRY RANK 14)</b>											
										2580	Adobe Systems	108.42	2	3	3	1.15	51.6	NIL	5- 60%
										2583	CA, Inc.	32.16	2	2	2	1.10	17.4	3.2	10- 40%
										2586	FireEye Inc.	12.53	1	4	3	1.80	NMF	NIL	100-220%
										2587	Fortinet Inc.	30.99	1	3	1	1.25	NMF	NIL	75-160%
										2590	Microsoft Corp.	57.66	2	1	3	1.00	20.0	2.7	15- 40%
										2591	Nuance Communic.	13.79	1	3	3	1.10	NMF	NIL	45-120%
										2593	PTC Inc.	46.13	2	3	3	1.30	63.2	NIL	N- N%
										2594	Palo Alto Networks	148.46	2	3	5	1.05	NMF	NIL	35-100%
										2599	Teradata Corp.	29.50	2	3	4	1.20	16.4	NIL	55-120%

**TIMELY STOCKS IN TIMELY INDUSTRIES**

Page No.	Industry (Industry Rank)	RANKS					Est'd 3-5 Year Price Apprec.	Est'd. Price	Page No.	Industry (Industry Rank)	RANKS					Est'd. Price									
		Recent Price	Technical	Safety	Beta	Current P/E Ratio					Recent Price	Technical	Safety	Beta	Current P/E Ratio										
<b>Tobacco (INDUSTRY RANK 15)</b>								<b>Educational Services (INDUSTRY RANK 25)</b>																	
1992	Brit. Amer Tobac. ADR	118.76	2	2	2	0.90	19.2	3.6	1599	Bridgepoint Education	6.76	2	4	3	1.40	29.4	NIL	35-105%							
1993	Philip Morris Int'l	96.56	2	2	2	0.80	20.3	4.3	2001	DeVry Education Group	22.23	2	3	4	1.15	9.1	NIL	35-125%							
1994	Reynolds American	47.27	2	2	3	0.65	20.3	3.9	2003	Rosetta Stone	7.38	2	4	1	0.65	NMF	NIL	35-130%							
1996	Universal Corp.	55.55	2	3	2	0.80	15.4	3.8	2004	Strayer Education	45.31	2	4	4	1.20	14.4	NIL	30-120%							
<b>Electric Util. (Central) (INDUSTRY RANK 16)</b>								<b>Power (INDUSTRY RANK 26)</b>																	
903	Alliant Energy	37.38	2	2	2	0.75	19.2	3.2	1215	AES Corp.	11.87	2	3	2	1.15	74.2	3.7	35-110%							
905	Amer. Elec. Power	63.37	2	2	3	0.65	15.5	3.7	1220	EnerNOC, Inc.	5.36	1	5	3	1.60	NMF	NIL	70-200%							
907	CenterPoint Energy	22.51	2	3	3	0.80	22.5	4.7	1226	NRG Energy	11.70	2	3	4	1.15	NMF	1.0	30-115%							
908	DTE Energy	92.84	2	2	2	0.70	18.5	3.4	1231	SunPower Corp.	8.54	1	4	4	1.90	NMF	NIL	195-425%							
913	MGE Energy	55.81	1	1	3	0.70	24.0	2.2	1232	TransAlta Corp.	5.99	2	3	3	0.85	NMF	2.7	50-165%							
914	OGE Energy	30.68	2	2	3	0.90	16.9	4.0	<b>Electrical Equipment (INDUSTRY RANK 27)</b>																
<b>Metal Fabricating (INDUSTRY RANK 17)</b>								1308								Garmin Ltd.	48.64	2	2	3	1.00	19.0	4.3	N- 25%	
729	Chart Industries	32.79	1	3	3	1.75	27.3	NIL	1315	Trimble Inc.	29.30	1	3	3	1.30	47.3	NIL	N- 55%							
736	Tenaris S.A. ADS	29.04	1	3	3	1.40	NMF	3.1	1317	WESCO Int'l	58.10	2	3	2	1.35	13.9	NIL	30- 90%							
<b>Petroleum (Integrated) (INDUSTRY RANK 18)</b>								<b>Household Products (INDUSTRY RANK 28)</b>																	
503	Cenovus Energy	20.29	2	3	3	1.10	NMF	1.0	1190	Clorox Co.	121.80	2	2	3	0.65	23.1	2.7	N- 25%							
504	Chevron Corp.	101.79	2	1	3	1.15	73.2	4.2	1191	Colgate-Palmolive	71.93	2	1	2	0.75	25.8	2.3	20- 40%							
505	Exxon Mobil Corp.	86.77	2	1	3	0.95	31.3	3.5	1195	Kimberly-Clark	120.54	2	1	2	0.65	21.9	3.1	10- 35%							
506	Hess Corp.	50.98	2	3	3	1.55	NMF	2.0	1196	Newell Brands	52.68	1	3	3	1.10	34.0	1.4	N- 15%							
507	HollyFrontier Corp.	23.80	2	3	4	1.25	16.6	5.7	1197	Procter & Gamble	87.45	2	1	2	0.65	20.4	3.1	5- 25%							
508	Husky Energy	15.70	2	3	4	1.05	NMF	NIL	<b>Thrift (INDUSTRY RANK 29)</b>																
509	Imperial Oil Ltd.	32.51	1	2	4	1.20	39.6	1.4	1506	New York Community	13.93	2	3	3	0.90	12.7	4.9	20- 80%							
511	Murphy Oil Corp.	28.20	2	3	3	1.45	NMF	3.5	1507	Northwest Bancshares	15.60	1	2	3	0.75	26.4	3.8	5- 30%							
512	Occidental Petroleum	72.57	2	3	2	1.20	NMF	4.2	<b>Telecom. Utility (INDUSTRY RANK 30)</b>																
514	Petroleo Brasileiro ADR	11.77	1	5	3	1.75	49.0	NIL	1026	BCE Inc.	46.17	2	3	2	0.70	20.3	4.5	N- 30%							
517	Suncor Energy	37.96	2	3	4	1.20	NMF	3.1	1032	Frontier Commun.	4.08	2	4	2	1.15	NMF	10.3	25- 95%							
519	Total ADR	48.54	2	2	4	1.20	12.5	5.7	1033	Telefonica SA ADR	9.73	2	4	3	1.15	17.1	8.7	25-105%							
<b>Bank (Midwest) (INDUSTRY RANK 19)</b>								<b>Electric Utility (West) (INDUSTRY RANK 31)</b>																	
776	BOK Financial	69.83	2	3	2	1.00	15.7	2.5	2228	El Paso Electric	43.74	2	2	2	0.70	17.9	2.9	N- 25%							
778	Comerica Inc.	50.05	2	3	3	1.25	17.2	1.8	2229	Hawaiian Elec.	28.95	1	2	3	0.70	13.0	4.3	N- 5%							
779	Commerce Bancshs.	48.52	2	1	2	0.90	17.6	1.9	2232	PG&E Corp.	60.93	2	3	3	0.65	17.3	3.3	N- 30%							
783	Hancock Holding	32.28	1	3	2	1.10	13.8	3.0	2237	Xcel Energy Inc.	40.54	2	1	3	0.60	17.9	3.5	N- 10%							
787	Park National	95.01	2	2	3	0.90	17.6	4.0	<b>Internet (INDUSTRY RANK 32)</b>																
<b>Office Equip/Supplies (INDUSTRY RANK 20)</b>								2634								IAC/InterActiveCorp	64.62	2	3	5	1.10	42.8	NIL	25- 85%	
1415	Diebold, Inc.	22.80	1	3	3	1.15	12.7	1.8	2639	Pandora Media	12.50	2	5	4	1.15	NMF	NIL	5-100%							
1417	Essendant Inc.	18.27	2	3	4	1.10	8.1	3.1	2641	Sohu.com Inc.	42.21	1	3	4	1.30	NMF	NIL	N- N%							
1421	Pitney Bowes	17.22	2	3	3	1.15	9.4	4.4	2642	TripAdvisor, Inc.	63.19	2	3	4	1.15	59.1	NIL	35-105%							
1422	Staples, Inc.	7.50	2	3	3	1.05	8.3	6.4	2647	Yelp, Inc.	35.80	1	4	3	1.50	NMF	NIL	N- N%							
<b>Toiletries/Cosmetics (INDUSTRY RANK 21)</b>								2648								Zillow Group 'C'	33.58	2	3	3	1.25	NMF	NIL	N- 20%	
1007	Avon Products	6.62	1	4	4	1.50	25.5	NIL	<b>Reinsurance (INDUSTRY RANK 33)</b>																
1011	Inter Parfums	31.55	1	3	1	1.15	27.0	2.0	2025	Greenlight Capital Re	20.48	1	3	3	0.90	23.5	NIL	45- 95%							
1014	Regis Corp.	12.07	1	3	3	1.00	86.2	NIL	2028	Third Point Reinsurance	12.35	1	3	4	0.90	6.2	NIL	40-100%							
<b>Insurance (Life) (INDUSTRY RANK 22)</b>								<b>Funeral Services (INDUSTRY RANK 34)</b>																	
1552	AEGON	4.15	1	3	3	1.45	8.8	7.0	1833	Hillenbrand, Inc.	30.73	2	3	2	1.10	16.3	2.6	15- 65%							
1554	Genworth Fin'l	5.09	2	5	4	1.95	5.9	NIL	1836	StoneMor Partners L.P.	24.78	1	3	4	0.60	NMF	10.7	N- 20%							
1557	MetLife Inc.	46.80	2	3	5	1.40	9.7	3.6	<b>Engineering &amp; Const (INDUSTRY RANK 35)</b>																
<b>Precision Instrument (INDUSTRY RANK 23)</b>								1239								Jacobs Engineering	50.58	2	3	2	1.25	16.4	NIL	N- 50%	
113	Agilent Technologies	45.44	2	3	3	1.25	22.1	1.0	1240	KBR, Inc.	14.82	2	3	3	1.60	11.4	2.2	20- 70%							
122	Geospace Technologies	17.46	1	4	3	1.60	NMF	NIL	1244	SNC-Lavalin Group	52.23	2	3	2	0.95	19.1	2.0	5- 65%							
125	Landauer, Inc.	44.60	1	3	2	1.00	23.6	2.5	<b>Environmental (INDUSTRY RANK 24)</b>																
126	MTS Systems	46.13	2	3	4	1.05	27.6	2.6	413	Calgon Carbon	15.79	2	3	5	1.05	25.1	1.3	N- 25%							
128	National Instruments	27.77	2	3	4	1.10	33.9	2.9	414	Clean Harbors	46.96	2	3	3	1.10	57.3	NIL	5- 60%							
134	Thermo Fisher Sci.	151.67	2	2	3	1.05	28.1	0.4	418	Tetra Tech	37.35	2	3	3	1.15	19.2	1.0	20- 85%							
135	Ultratech, Inc.	22.90	1	3	1	1.10	57.3	NIL	<b>Environmental (INDUSTRY RANK 24)</b>																
136	Veeco Instruments	21.45	2	4	4	1.20	NMF	NIL	413								Calgon Carbon	15.79	2	3	5	1.05	25.1	1.3	N- 25%
137	Waters Corp.	156.74	2	2	3	1.00	23.1	NIL	414								Clean Harbors	46.96	2	3	3	1.10	57.3	NIL	5- 60%

# Timely Stocks

## Stocks Ranked 1 (Highest) for Relative Price Performance (Next 12 Months)

Page No.	Stock Name	Recent Price Ticker	Technical Safety	R a n k s	Current P/E Ratio	% Est'd Yield	Industry Group	Industry Rank	Page No.	Stock Name	Recent Price Ticker	Technical Safety	R a n k s	Current P/E Ratio	% Est'd Yield	Industry Group	Industry Rank		
1737	ABB Ltd. ADR	ABB	22.45	3	2	23.1	3.3	Diversified Co.	36	1760	LSB Inds.	LXU	6.22	5	3	NMF	NIL	Diversified Co.	36
940	ADTRAN, Inc.	ADTN	18.60	3	3	27.4	1.9	Telecom. Equipment	37	125	Landauer, Inc.	LDR	44.60	3	2	23.6	2.5	Precision Instrument	23
438	Advisory Board	ABCO	43.52	3	4	45.3	NIL	Information Services	74	2563	Legg Mason	LM	31.70	3	3	13.3	2.8	Financial Svcs. (Div.)	58
1552	AEGON	AEG	4.15	3	3	8.8	7.0	Insurance (Life)	22	1761	Leucadia National	LUK	18.96	3	4	37.2	1.3	Diversified Co.	36
703	AeroVironment ■	AVAV	22.51	3	3	NMF	NIL	Aerospace/Defense	59	2564	Loews Corp.	L	41.29	2	3	14.9	0.6	Financial Svcs. (Div.)	58
1607	Albany Molecular	AMRI	16.44	4	5	NMF	NIL	Drug	45	913	MGE Energy	MGEE	55.81	1	3	24.0	2.2	Electric Util. (Central)	16
1582	Allegheny Techn.	ATI	16.92	4	4	NMF	1.9	Metals & Mining (Div.)	2	1536	Mack-Cali R'ty	CLI	26.59	3	3	NMF	2.3	R.E.I.T.	50
1322	Anixter Int'l	AXE	60.90	3	4	14.1	NIL	Electronics	56	954	Marvell Technology	MRVL	13.01	3	3	24.1	1.8	Telecom. Equipment	37
740	ArcelorMittal	MT	6.36	4	4	13.3	NIL	Steel	7	1924	Mead Johnson Nutrition	MJN	80.11	2	4	23.3	2.1	Food Processing	49
305	Atlas Air Worldwide ■	AAWW	42.00	3	5	11.3	NIL	Air Transport	92	767	Mercury General	MCY	54.05	2	2	24.7	4.6	Insurance (Prop/Cas.)	46
1007	Avon Products	AVP	6.62	4	4	25.5	NIL	Toiletries/Cosmetics	21	220	Meridian Bioscience	VIVO	18.65	3	3	21.2	4.3	Med Supp Non-Invasive	39
1584	BHP Billiton Ltd. ADR	BHP	34.49	3	5	NMF	1.7	Metals & Mining (Div.)	2	572	Methanex Corp. ■	MEOH	37.80	3	5	NMF	3.0	Chemical (Specialty)	62
2416	Baker Hughes	BHI	51.60	3	4	NMF	1.3	Oilfield Svcs/Equip.	5	535	National Fuel Gas	NFG	52.93	3	1	NMF	3.1	Natural Gas (Div.)	13
2653	Blackstone Group LP ■	BX	23.61	3	3	9.9	6.1	Public/Private Equity	1	2428	National Oilwell Varco	NOV	36.66	3	4	NMF	0.5	Oilfield Svcs/Equip.	5
306	Bristow Group	BRS	11.59	4	4	NMF	2.4	Air Transport	92	1196	Newell Brands	NWL	52.68	3	3	34.0	1.4	Household Products	28
1353	Broadcom Ltd.	AVGO	172.17	3	3	60.8	1.2	Semiconductor	75	2410	Noble Energy	NBL	35.09	3	4	NMF	1.1	Petroleum (Producing)	9
796	Brookdale Sen. Living ■	BKD	15.48	4	3	NMF	NIL	Medical Services	70	1507	Northwest Bancshares	NWBI	15.60	2	3	26.4	3.8	Thrift	29
761	CNA Fin'l	CNA	35.71	2	5	11.9	2.8	Insurance (Prop/Cas.)	46	2591	Nuance Commun.	NUAN	13.79	3	3	NMF	NIL	Computer Software	14
2417	CARBO Ceramics	CRR	10.56	4	3	NMF	NIL	Oilfield Svcs/Equip.	5	607	ONEOK Inc.	OKE	50.03	3	3	27.8	5.1	Oil/Gas Distribution	8
729	Chart Industries	GTLS	32.79	3	3	27.3	NIL	Metal Fabricating	17	514	Petroleo Brasileiro ADR	PBR	11.77	5	3	49.0	NIL	Petroleum (Integrated)	18
821	Computer Prog. & Sys.	CPSI	26.21	3	5	23.2	5.2	Healthcare Information	11	1629	Pfizer, Inc.	PFE	32.69	1	1	19.7	3.7	Drug	45
946	Comtech Telecom. ■	CMTL	10.88	4	3	NMF	11.0	Telecom. Equipment	37	622	Plains All Amer. Pipe.	PAA	32.46	3	5	41.6	6.8	Pipeline MLPs	6
2418	Core Laboratories	CLB	111.99	3	4	60.5	2.0	Oilfield Svcs/Equip.	5	1168	Potlatch Corp.	PCH	38.80	3	3	NMF	3.9	Paper/Forest Products	42
2155	Crocs, Inc.	CROX	8.08	4	4	NMF	NIL	Shoe	81	823	Quality Systems	QSII	12.27	3	4	49.1	NIL	Healthcare Information	11
2512	Cullen/Frost Bankers	CFR	73.00	2	3	16.3	3.0	Bank	51	1014	Regis Corp.	RGS	12.07	3	3	86.2	NIL	Toiletries/Cosmetics	21
2008	Daktronics Inc. ■	DAKT	8.60	3	3	26.9	3.5	Entertainment Tech	44	1575	Royal Gold	RGLD	68.87	3	2	47.2	1.4	Precious Metals	3
1415	Diebold, Inc.	DBD	22.80	3	3	12.7	1.8	Office Equip/Supplies	20	748	Russel Metals	RUS.TO	20.77	3	3	18.5	7.3	Steel	7
1568	Eldorado Gold	EGO	3.61	4	3	45.1	NIL	Precious Metals	3	1630	Sanofi ADR ■	SNY	37.73	1	4	20.3	4.6	Drug	45
1220	EnerNOC, Inc. ■	ENOC	5.36	5	3	NMF	NIL	Power	26	2434	Schlumberger Ltd.	SLB	81.39	2	3	74.0	2.5	Oilfield Svcs/Equip.	5
618	EnLink Midstream Part.	ENLK	18.36	3	3	NMF	8.5	Pipeline MLPs	6	749	Schnitzer Steel	SCHN	21.75	3	3	42.6	3.4	Steel	7
947	Ericsson ADR ■	ERIC	5.47	3	4	11.6	8.4	Telecom. Equipment	37	2344	Scripps (E.W.) 'A'	SSP	14.11	3	3	15.0	NIL	Entertainment	76
2586	FireEye Inc.	FEYE	12.53	4	3	NMF	NIL	Computer Software	14	2621	ServiceNow, Inc.	NOW	76.16	4	3	NMF	NIL	IT Services	64
2587	Fortinet Inc.	FTNT	30.99	3	1	NMF	NIL	Computer Software	14	1376	Silicon Labs	SLAB	58.40	3	3	49.9	NIL	Semiconductor	75
2555	Franklin Resources ■	BEN	34.23	2	3	11.8	2.4	Financial Svcs. (Div.)	58	1576	Silver Wheaton	SLW	24.08	3	1	29.0	0.8	Precious Metals	3
1587	FreepT-McMoRan Inc.	FCX	9.72	4	3	16.5	NIL	Metals & Mining (Div.)	2	2641	Sohu.com Inc.	SOHU	42.21	3	4	NMF	NIL	Internet	32
210	Genomic Health	GHDX	29.82	3	4	NMF	NIL	Med Supp Non-Invasive	39	1591	Southern Copper	SCCO	26.63	3	4	22.4	0.9	Metals & Mining (Div.)	2
122	Geospace Technologies	GEOS	17.46	4	3	NMF	NIL	Precision Instrument	23	1827	Splunk Inc.	SPLK	57.66	3	2	NMF	NIL	E-Commerce	65
1616	GlaxoSmithKline ADR	GSK	41.76	1	2	28.2	4.8	Drug	45	1836	StoneMor Partners L.P.	STON	24.78	3	4	NMF	10.7	Funeral Services	34
333	Golar LNG Ltd.	GLNG	23.62	4	4	NMF	0.8	Maritime	53	623	Suburban Propane	SPH	33.71	3	3	21.9	10.5	Pipeline MLPs	6
1804	Greenhill & Co.	GHL	22.95	3	4	12.7	7.8	Investment Banking	10	1231	SunPower Corp.	SPWR	8.54	4	4	NMF	NIL	Power	26
2025	Greenlight Capital Re	GLRE	20.48	3	3	23.5	NIL	Reinsurance	33	736	Tenaris S.A. ADS	TS	29.04	3	3	NMF	3.1	Metal Fabricating	17
2515	HSBC Holdings PLC	HSBC	38.33	3	4	10.0	5.2	Bank	51	2028	Third Point Reinsurance	TPRE	12.35	3	4	6.2	NIL	Reinsurance	33
783	Hancock Holding	HBHC	32.28	3	2	13.8	3.0	Bank (Midwest)	19	1003	Titan Int'l	TWI	10.25	4	3	NMF	0.2	Auto Parts	93
2229	Hawaiian Elec.	HE	28.95	2	3	13.0	4.3	Electric Utility (West)	31	1315	Trimble Inc.	TRMB	29.30	3	3	47.3	NIL	Electrical Equipment	27
804	Healthways Inc.	HWAY	25.92	4	3	13.7	NIL	Medical Services	70	135	Ultratech, Inc.	UTEK	22.90	3	1	57.3	NIL	Precision Instrument	23
509	Imperial Oil Ltd.	IMO	32.51	2	4	39.6	1.4	Petroleum (Integrated)	18	751	U.S. Steel Corp.	X	17.17	5	2	NMF	1.2	Steel	7
1011	Inter Parfums	IPAR	31.55	3	1	27.0	2.0	Toiletries/Cosmetics	21	1776	United Technologies	UTX	99.99	1	2	15.1	2.6	Diversified Co.	36
833	Ionis Pharmac. ■	IONS	28.62	4	4	NMF	NIL	Biotechnology	40	2440	Weatherford Int'l plc	WFT	5.91	4	4	NMF	NIL	Oilfield Svcs/Equip.	5
2656	KKR & Co. L.P.	KKR	13.72	3	3	4.4	4.7	Public/Private Equity	1	2196	Weight Watchers	WTW	10.18	5	4	9.5	NIL	Retail (Hardlines)	61
2143	Kohl's Corp.	KSS	43.04	2	4	12.1	4.9	Retail Store	57	2647	Yelp, Inc.	YELP	35.80	4	3	NMF	NIL	Internet	32

■ Newly added this week.

**Rank 1 Deletions:**

AngioDynamics; Bio-Techne Corp.; Black Box; Cabot Oil & Gas 'A'; CLARCOR Inc.; Enerplus Corp.; Forrester Research; MSC Industrial Direct; RPC Inc.; South Jersey Inds.; SurModics, Inc.; 3D Systems.

**Rank removed—see supplement or report:**

None.



Continued from preceding page

**TIMELY STOCKS**

**Stocks Ranked 2 (Above Average) for Relative Price Performance in the Next 12 Months**

Page No.	Stock Name	Recent Price Ticker	R a n k s		Current P/E Ratio	% Est'd Yield	Industry Group	Page No.	Stock Name	Recent Price Ticker	R a n k s		Current P/E Ratio	% Est'd Yield	Industry Group	Page No.			
			Technical Safety	↓							↓	↓							
702	AAR Corp.	AIR	31.77	3	3	23.9	0.9	Aerospace/Defense	59	908	DTE Energy	DTE	92.84	2	2	18.5	3.4	Electric Util. (Central)	16
1215	AES Corp.	AES	11.87	3	2	74.2	3.7	Power	26	1507	Deere & Co.	DE	86.61	1	4	23.5	2.8	Heavy Truck & Equip	55
1319	AVX Corp.	AVX	13.75	3	3	18.3	3.2	Electronics	26	248	Denbury Resources ▲	DNR	2.77	5	3	NMF	NIL	Petroleum (Producing)	9
198	Abbott Labs.	ABT	41.17	1	4	18.4	2.5	Med Supp Non-Invasive	39	2001	DeVry Education Group ▲	DV	22.23	3	4	9.1	1.7	Educational Services	25
2006	Activision Blizzard	ATVI	44.18	3	3	53.9	0.6	Entertainment Tech	44	1974	Diageo plc	DEO	108.15	1	2	22.1	3.2	Beverage	38
154	Actuant Corp.	ATU	22.26	3	4	18.0	0.2	Heavy Truck & Equip	55	1519	Digital Realty Trust	DLR	96.57	3	3	75.4	3.9	R.E.I.T.	50
2580	Adobe Systems	ADBE	108.42	3	3	51.6	NIL	Computer Software	14	1021	Dish Network 'A'	DISH	56.62	3	5	17.4	NIL	Cable TV	73
1738	Aerofjet Rocketdyne	AJRD	17.25	3	2	20.5	NIL	Diversified Co.	36	2009	Dolby Labs.	DLB	51.46	3	3	27.5	0.9	Entertainment Tech	44
113	Agilent Technologies	A	45.44	3	3	22.1	1.0	Precision Instrument	23	142	Dominion Resources	D	73.37	2	2	18.7	4.0	Electric Utility (East)	12
1565	Agnico Eagle Mines	AEM	48.01	3	2	87.3	0.8	Precious Metals	3	1163	Domtar Corp.	UFS	37.47	3	5	11.7	4.4	Paper/Forest Products	42
1608	Alexion Pharm.	ALXN	121.34	3	4	27.3	NIL	Drug	45	1710	Donaldson Co.	DCI	36.41	2	2	23.6	1.9	Machinery	68
754	Allegheny Corp.	Y	524.98	1	3	20.3	NIL	Insurance (Prop/Cas.)	46	1711	Dover Corp.	DOV	67.54	2	2	19.8	2.6	Machinery	68
903	Alliant Energy	LNT	37.38	2	2	19.2	3.2	Electric Util. (Central)	16	143	Duke Energy	DUK	77.90	2	2	17.1	4.4	Electric Utility (East)	12
826	Alnylam Pharm.	ALNY	38.07	4	4	NMF	NIL	Biotechnology	40	444	Dun & Bradstreet	DNB	125.71	3	1	16.8	1.5	Information Services	74
2604	Amdocs Ltd.	DOX	59.61	1	3	20.9	1.3	IT Services	64	529	EOG Resources	EOG	93.13	3	2	NMF	0.8	Natural Gas (Div.)	13
794	Amedys, Inc.	AMED	46.12	4	2	26.1	NIL	Medical Services	70	530	EQT Corp.	EQT	65.61	3	1	NMF	0.2	Natural Gas (Div.)	13
922	America Movil	AMX	11.91	3	5	13.7	2.5	Telecom. Services	71	2549	Eaton Vance Corp. ▲	EV	37.21	3	1	16.8	3.0	Financial Svcs. (Div.)	51
2201	Amer. Eagle Outfitters	AEO	17.14	3	1	12.9	2.9	Retail (Softlines)	63	2228	El Paso Electric	EE	43.74	2	2	17.9	2.9	Electric Utility (West)	38
905	Amer. Elec. Power	AEP	63.37	2	3	15.5	3.7	Electric Util. (Central)	16	617	Energy Transfer	ETP	36.44	3	3	24.6	11.6	Pipeline MLPs	6
1384	Amkor Technology	AMKR	9.39	5	3	20.9	NIL	Semiconductor Equip	67	533	Enphase Corp. ▼	EFRT	9.67	5	3	NMF	1.2	Natural Gas (Div.)	13
2402	Anadarko Petroleum	APC	62.97	3	5	NMF	0.3	Petroleum (Producing)	9	2421	Enso plc	ESV	8.47	4	5	9.8	0.5	Oilfield Svcs/Equip.	5
172	AngioDynamics ▼	ANGO	16.93	3	3	NMF	NIL	Med Supp Invasive	48	764	Erie Indemnity	ERIE	104.72	2	3	27.9	2.8	Insurance (Prop/Cas.)	46
1566	AngloGold Ashanti ADS	AU	14.13	4	1	22.8	NIL	Precious Metals	3	1749	ESCO Technologies	ESE	44.90	3	2	21.3	0.7	Diversified Co.	36
1512	Anny Capital Mgmt.	NLY	10.10	3	3	8.6	11.9	R.E.I.T.	50	1417	Essendant Inc.	ESND	18.27	3	4	8.1	3.1	Office Equip/Supplies	20
523	Antero Resources Corp. ▲	AR	27.44	4	4	50.8	NIL	Natural Gas (Div.)	13	711	Esterline Technologies	ESL	73.00	3	3	14.3	NIL	Aerospace/Defense	59
2651	Apollo Global Mgmt ▲	APO	17.61	3	3	6.7	8.4	Public/Private Equity	1	145	Exelon Corp.	EXC	33.09	3	2	14.8	3.9	Electric Utility (East)	12
2652	Apollo Investment	AINV	5.89	3	3	29.5	10.2	Public/Private Equity	1	505	Exxon Mobil Corp.	XOM	86.77	1	3	31.3	3.5	Petroleum (Integrated)	18
155	Astec Inds.	ASTE	59.10	3	3	24.5	0.7	Heavy Truck & Equip	55	1601	FMC Corp.	FMC	47.22	3	2	16.7	1.5	Chemical (Basic)	4
2605	Automatic Data Proc.	ADP	87.38	1	2	24.8	2.6	IT Services	64	390	FTI Consulting	FCN	43.88	3	3	18.4	NIL	Industrial Services	69
1026	BCE Inc.	BCE	46.17	3	2	20.3	4.5	Telecom. Utility	30	1524	Federal Rlty. Inv. Trust	FRT	147.10	2	2	46.4	2.7	R.E.I.T.	50
776	BOK Financial	BOKF	69.83	3	2	15.7	2.5	Bank (Midwest)	19	2551	Federated Investors	FII	27.78	3	1	13.9	3.6	Financial Svcs. (Div.)	58
2508	Bank of Nova Scotia	BNS.TO	70.78	1	2	11.9	4.2	Bank	51	2552	Fidelity National	FIS	75.95	2	2	27.8	1.4	Financial Svcs. (Div.)	58
1567	Barrick Gold	ABX	16.37	3	2	27.7	0.5	Precious Metals	3	161	Finning Int'l	FTT.TO	25.58	3	3	28.1	2.9	Heavy Truck & Equip	55
1175	Bemis Co.	BMS	50.46	1	2	19.2	2.3	Packaging & Container	82	1712	Flowerserve Corp.	FLS	42.93	3	3	17.1	1.8	Machinery	68
2167	Big 5 Sporting Goods ▲	BGFV	16.55	4	3	27.1	3.0	Retail (Hardlines)	61	447	Forrester Research ▼	FORR	37.90	3	2	30.8	2.0	Information Services	74
828	Bio-Techne Corp. ▼	TECH	105.22	1	2	35.2	1.2	Biotechnology	40	2173	Fossil Group	FOSL	28.02	3	4	13.5	NIL	Retail (Hardlines)	61
829	BioMarin Pharm.	BMRN	85.40	3	3	NMF	NIL	Biotechnology	40	2142	Fred's Inc. ▲	FRED	8.83	3	3	NMF	2.7	Retail Store	57
942	Black Box ▼	BBOX	12.75	3	3	36.4	3.9	Telecom. Equipment	37	1032	Frontier Commun.	FTR	4.08	4	2	NMF	10.3	Telecom. Utility	37
587	BlackBerry	BBRY	7.42	4	4	NMF	NIL	Wireless Networking	77	1308	Garmin Ltd.	GRMN	48.64	2	3	19.0	4.3	Electrical Equipment	20
614	Boardwalk Pipeline	BWP	16.74	4	3	14.8	2.4	Pipeline MLPs	6	2332	GasLog Ltd.	GLOG	16.55	4	4	87.1	3.4	Maritime	53
707	Bombardier Inc. 'B'	BBDD.TO	1.77	5	2	NMF	NIL	Aerospace/Defense	59	1752	Gen'l Electric	GE	28.98	3	2	18.5	3.2	Diversified Co.	36
1742	Brady Corp.	BRC	34.10	3	2	19.6	2.4	Diversified Co.	36	991	Genuine Parts	GPC	96.35	1	2	20.3	2.7	Auto Parts	93
1999	Bridgepoint Education	BPI	6.76	4	3	29.4	NIL	Educational Services	25	1554	Genworth Fin'l	GNW	5.09	5	4	5.9	NIL	Insurance (Life)	22
382	Brink's (The) Co. ▲	BCO	36.99	3	3	32.4	1.1	Industrial Services	69	2655	Gladstone Capital	GLAD	8.60	3	3	9.7	9.8	Public/Private Equity	1
1612	Bristol-Myers Squibb	BYM	50.05	1	3	19.3	3.0	Drug	45	2336	Global Eagle Entertain.	ENT	8.33	4	5	75.7	NIL	Entertainment	76
1992	Brit. Amer Tobac. ADR	BTI	118.76	2	2	19.2	3.6	Tobacco	15	925	Gogo Inc.	GOGO	10.87	4	4	NMF	NIL	Telecom. Services	71
2203	Buckle (The), Inc.	BKE	21.30	3	3	9.4	5.1	Retail (Softlines)	63	1570	Goldcorp Inc.	GG	14.86	3	2	49.5	0.8	Precious Metals	3
2583	CA, Inc.	CA	32.16	2	2	17.4	3.2	Computer Software	14	1803	Goldman Sachs ▲	GS	172.63	2	4	9.7	1.5	Investment Banking	10
1354	CEVA, Inc.	CEVA	30.85	4	3	49.8	NIL	Semiconductor	75	162	Gorman-Rupp Co.	GRC	24.58	3	3	27.0	1.7	Heavy Truck & Equip	55
1596	CF Industries	CF	23.46	3	4	27.9	5.8	Chemical (Basic)	4	1180	Greif, Inc.	GEF	48.21	3	2	18.3	3.5	Packaging & Container	82
1793	CME Group	CME	104.09	2	2	23.9	2.3	Brokers & Exchanges	47	2106	Guess Inc.	GES	13.72	3	3	16.5	6.6	Apparel	86
1597	CVR Partners, LP	UAN	4.86	3	3	NMF	14.0	Chemical (Basic)	4	211	Haemonetics Corp.	HAE	34.47	3	3	24.6	NIL	Med Supp Non-Invasive	39
561	Cabot Microelectr's ▲	CCMP	52.40	3	3	20.8	1.4	Chemical (Specialty)	62	2423	Haliburton Co.	HAL	47.07	3	3	NMF	1.5	Oilfield Svcs/Equip.	5
524	Cabot Oil & Gas 'A' ▼	COG	22.11	3	1	NMF	0.4	Natural Gas (Div.)	13	393	Harsco Corp.	HSC	9.90	4	4	20.6	NIL	Industrial Services	69
413	Calgon Carbon ▲	CCC	15.79	3	5	25.1	1.3	Environmental	24	2424	Helix Energy Solutions	HLX	9.53	4	5	NMF	NIL	Oilfield Svcs/Equip.	5
1784	California Water	CWT	32.45	3	3	30.3	2.1	Water Utility	43	2425	Helmerich & Payne	HP	67.17	3	3	NMF	4.2	Oilfield Svcs/Equip.	5
1585	Cameco Corp.	CCO.TO	10.50	3	3	11.8	3.8	Metals & Mining (Div.)	2	506	Hess Corp.	HES	50.98	3	3	NMF	2.0	Petroleum (Integrated)	38
1983	Canon Inc. ADR	CAJ	29.24	2	4	16.7	4.5	Foreign Electronics	52	1833	Hillenbrand, Inc.	HI	30.73	3	2	16.3	2.6	Funereral Services	14
1328	Celestica Inc.	CLS	10.42	3	3	12.0	NIL	Electronics	56	507	HollyFrontier Corp. ▲	HFC	23.80	3	4	16.6	5.7	Petroleum (Integrated)	18
503	Centovus Energy	CVE.TO	20.29	3	3	NMF	1.0	Petroleum (Integrated)	16	213	Hologic, Inc.	HOLX	38.73	3	3	35.2	NIL	Med Supp Non-Invasive	39
907	CenterPoint Energy	CNP	22.51	3	3	22.5	4.7	Electric Util. (Central)	18	107	Honda Motor ADR	HMC	29.52	3	3	14.1	2.8	Automotive	60
603	Cheniere Energy	LNG	41.61	4	3	NMF	NIL	Oil/Gas Distribution	8	1531	Hospitality Properties	HPT	29.29	3	2	20.3	7.0	R.E.I.T.	50
525	Chesapeake Energy	CHK	6.52	5	3	NMF	NIL	Natural Gas (Div.)	13	508	Husky Energy ▲	HSE.TO	15.70	3	4	NMF	NIL	Petroleum (Integrated)	18
504	Chevron Corp. ▲	CVX	101.79	1	3	73.2	4.2	Petroleum (Integrated)	18	2634	IAC/InterActiveCorp	IAC	64.62	3	5	42.8	NIL	Internet	32
2205	Chico's FAS	CHS	11.92	3	3	17.3	2.9	Retail (Softlines)	63	2012	Immersion Corp.	IMMR	7.76	4					

**TIMELY STOCKS**

**Stocks Ranked 2 (Above Average) for Relative Price Performance in the Next 12 Months**

Page No.	Stock Name	Ticker	R a n k s		Current P/E Ratio	% Est'd Yield	Industry Group	Industry Rank	Page No.	Stock Name	Ticker	R a n k s		Current P/E Ratio	% Est'd Yield	Industry Group	Industry Rank		
			Recent Price	Technical Safety								Recent Price	Technical Safety						
534	MDU Resources	MDU	25.04	2	3	21.2	3.0	Natural Gas (Div.)	13	1244	SNC-Lavalin Group	SNC.TO	52.23	3	2	19.1	2.0	Engineering & Const	35
2426	MRC Global	MRC	15.91	4	3	NMF	NIL	Oilfield Svcs/Equip.	5	150	SCANA Corp.	SCG	70.59	2	2	17.3	3.4	Electric Utility (East)	12
1718	MSA Safety	MSA	57.00	3	3	23.7	2.4	Machinery	68	1408	ScanSource	SCSC	35.50	3	3	14.5	NIL	Computers/Peripherals	83
1719	MSC Industrial Direct	MSM	71.04	2	2	18.6	2.4	Machinery	68	581	Schulman (A.)	SHLM	27.90	3	4	13.4	2.9	Chemical (Specialty)	62
126	MTS Systems	MTSC	46.13	3	4	27.6	2.6	Precision Instrument	23	839	Seattle Genetics	SGEN	50.73	4	3	NMF	NIL	Biotechnology	40
2618	ManTech Int'l 'A'	MANT	39.18	3	3	26.8	2.1	IT Services	64	1375	Semtech Corp.	SMTC	24.85	3	2	36.0	NIL	Semiconductor	75
2409	Marathon Oil Corp.	MRO	14.20	3	3	NMF	1.4	Petroleum (Producing)	9	1933	Sensient Techn.	SXT	72.52	2	2	21.6	1.5	Food Processing	49
2315	Mattel, Inc.	MAT	30.71	2	2	22.3	4.9	Recreation	85	1024	Shaw Commun. 'B'	SJRB.TO	26.38	2	4	21.6	4.5	Cable TV	73
1923	McCormick & Co.	MKC	94.85	1	2	24.6	1.8	Food Processing	49	1934	Smucker (J.M.)	SJM	132.22	1	2	20.2	2.3	Food Processing	49
365	McDonald's Corp.	MCD	111.25	1	3	19.5	3.4	Restaurant	87	2192	Sotheby's	BID	36.58	3	2	15.9	NIL	Retail (Hardlines)	61
1619	Medicines Company	MDCO	37.95	3	3	NMF	NIL	Drug	45	550	South Jersey Inds. ▼	SJI	28.61	2	2	21.7	3.9	Natural Gas Utility	41
1557	MetLife Inc.	MET	46.80	3	5	9.7	3.6	Insurance (Life)	22	151	Southern Co.	SO	51.09	2	2	18.1	4.5	Electric Utility (East)	12
2590	Microsoft Corp.	MSFT	57.66	1	3	20.0	2.7	Computer Software	14	541	Southwestern Energy	SWN	12.64	4	3	NMF	NIL	Natural Gas (Div.)	13
1602	Mosaic Company	MOS	23.39	3	3	37.7	5.3	Chemical (Basic)	4	1955	SpartanNash Co.	SPTN	28.40	3	1	14.9	2.1	Retail/Wholesale Food	79
511	Murphy Oil Corp.	MUR	28.20	3	3	NMF	3.5	Petroleum (Integrated)	18	2325	Speedway Motorsports	TRK	17.66	3	5	13.3	3.4	Recreation	85
1226	NRG Energy	NRG	11.70	3	4	NMF	1.0	Power	26	1422	Staples, Inc.	SPLS	7.50	3	3	8.3	6.4	Office Equip/Supplies	20
128	National Instruments	NATI	27.77	3	4	33.9	2.9	Precision Instrument	23	1809	Stifel Financial Corp.	SF	38.40	3	4	14.6	NIL	Investment Banking	10
1926	Nestle SA ADS	NSRGY	75.63	1	1	24.4	3.1	Food Processing	49	1577	Stillwater Mining	SWC	12.45	4	2	69.2	NIL	Precious Metals	3
1506	New York Community	NYCB	13.93	3	3	12.7	4.9	Thrift	29	1344	Stratays Ltd.	SSYS	20.39	3	4	NMF	NIL	Electronics	56
1572	Newmont Mining	NEM	36.17	3	1	23.2	0.6	Precious Metals	3	2004	Strayer Education	STRA	45.31	4	4	14.4	NIL	Educational Services	25
2429	Noble Corp. plc	NE	5.77	4	4	NMF	1.4	Oilfield Svcs/Equip.	5	191	Stryker Corp.	SYK	114.81	1	3	23.3	1.3	Med Supp Invasive	48
1623	Novartis AG ADR	NVS	76.31	1	3	23.5	3.6	Drug	45	517	Suncor Energy	SU.TO	37.96	3	4	NMF	3.1	Petroleum (Integrated)	18
745	Nucor Corp.	NUE	47.15	3	2	19.4	3.2	Steel	7	624	Sunoco Logistics Part.	SXL	26.89	3	3	24.0	7.4	Pipeline MLPs	6
1927	NutriSystem Inc.	NTRI	30.70	3	3	26.5	2.3	Food Processing	49	2436	Superior Energy Svcs.	SPN	18.07	4	3	NMF	NIL	Oilfield Svcs/Equip.	5
914	OGE Energy	OGE	30.68	2	3	16.9	4.0	Electric Util. (Central)	16	192	SurModics, Inc. ▼	SRDX	28.50	3	3	32.0	NIL	Med Supp Invasive	48
512	Occidental Petroleum	OXY	72.57	3	2	NMF	4.2	Petroleum (Integrated)	18	1958	Sysco Corp.	SY	48.27	1	1	21.4	2.6	Retail/Wholesale Food	79
2430	Oceaneering Int'l	OII	26.64	3	4	26.1	4.1	Oilfield Svcs/Equip.	5	1592	Teck Resources Ltd. 'B'	TCKB.TO	27.10	4	3	58.9	0.4	Metals & Mining (Div.)	2
222	Omnicell, Inc.	OMCL	35.65	3	1	99.0	NIL	Med Supp Non-Invasive	39	1033	Telefonica SA ADR	TEF	9.73	4	17.1	8.7	Telecom. Utility	30	
621	ONEOK Partners L.P.	OKS	41.87	3	3	18.0	7.5	Pipeline MLPs	6	1161	Tempur Sealy Int'l	TPX	52.60	4	1	20.9	NIL	Furn/Home Furnishings	96
166	Oshkosh Corp.	OSK	53.30	3	2	17.5	1.4	Heavy Truck & Equip	55	2599	Teradata Corp. ▲	TDC	29.50	3	4	16.4	NIL	Computer Software	14
223	Owens & Minor	OMI	33.29	2	4	16.2	3.1	Med Supp Non-Invasive	39	110	Tesla Motors	TSLA	199.10	4	4	NMF	NIL	Automotive	60
1181	Owens-Illinois	OI	17.37	3	3	7.3	NIL	Packaging & Container	82	418	Tetra Tech	TTEK	37.35	3	3	19.2	1.0	Environmental	24
2232	PG&E Corp.	PCG	60.93	3	3	17.3	3.3	Electric Utility (West)	31	2437	TETRA Technologies ▲	TTI	5.96	4	4	11.9	NIL	Oilfield Svcs/Equip.	5
2593	PTC Inc.	PTC	46.13	3	3	63.2	NIL	Computer Software	14	134	Thermo Fisher Sci.	TMO	151.67	2	3	28.1	0.4	Precision Instrument	23
2594	Palo Alto Networks	PANW	148.46	3	5	NMF	NIL	Computer Software	14	1346	3D Systems ▼	DDD	14.14	3	4	NMF	NIL	Electronics	56
1573	Pan Amer. Silver	PAAS	16.42	4	2	26.1	0.3	Precious Metals	3	2193	Tiffany & Co.	TIF	72.04	3	4	19.2	2.6	Retail (Hardlines)	61
2639	Pandora Media	P	12.50	5	4	NMF	NIL	Internet	32	1143	Tile Shop Hldgs.	TTM	18.15	4	3	37.8	NIL	Retail Building Supply	72
575	Park Electrochemical	PKE	14.06	3	3	17.6	2.8	Chemical (Specialty)	62	519	Total ADR ▲	TOT	48.54	2	4	12.5	5.7	Petroleum (Integrated)	18
787	Park National	PRK	95.01	2	3	17.6	4.0	Bank (Midwest)	19	1232	TransAlta Corp.	TA.TO	5.99	3	3	NMF	2.7	Power	26
1766	Parker-Hannifin	PH	122.82	2	3	17.9	2.1	Diversified Co.	36	1610	TransCanada Corp.	TRP	47.27	2	2	27.6	4.8	Oil/Gas Distribution	8
224	Patterson Cos.	PDCO	44.58	2	3	17.8	2.2	Med Supp Non-Invasive	39	582	Tredegar Corp.	TG	18.25	3	2	22.0	2.7	Chemical (Specialty)	62
608	Pembina Pipeline Corp.	PPL.TO	40.92	3	3	35.0	4.7	Oil/Gas Distribution	8	2642	TriAdvisor, Inc.	TRIP	63.19	4	4	59.1	NIL	Internet	32
1537	Penn. R.E.I.T.	PEI	21.48	3	1	NMF	4.1	R.E.I.T.	50	1941	Unilever PLC ADR	UL	42.86	1	2	21.4	3.3	Food Processing	49
1979	PepsiCo, Inc.	PEP	106.95	1	3	22.0	2.8	Beverage	38	1996	Universal Corp.	UVV	55.55	3	2	15.4	3.8	Tobacco	15
970	PetMed Express	PETS	20.85	3	3	18.1	3.7	Pharmacy Services	84	2017	Universal Electronics	UEIC	69.15	3	1	38.2	NIL	Entertainment Tech	44
1988	Philips Electronics NV	PHG	29.24	3	3	41.8	3.2	Foreign Electronics	52	1777	Valmont Inds.	VMI	129.35	3	2	20.2	1.2	Diversified Co.	36
1993	Philip Morris Int'l ▲	PM	96.56	2	2	20.3	4.3	Tobacco	15	136	Veeco Instruments	VECO	21.45	4	4	NMF	NIL	Precision Instrument	23
2412	Pioneer Natural Res.	PXD	184.03	3	3	NMF	NIL	Petroleum (Producing)	9	1545	Ventas, Inc.	VTR	67.66	3	2	36.4	4.4	R.E.I.T.	50
1421	Pitney Bowes	PBI	17.22	3	3	9.4	4.4	Office Equip/Supplies	20	2353	Viacom Inc. 'B' ▲	VIAB	36.14	3	3	8.4	2.2	Entertainment	76
1339	Plantronics Inc.	PLT	51.34	3	3	20.1	1.2	Electronics	56	554	WGL Holdings Inc.	WGL	61.40	1	3	19.2	3.2	Natural Gas Utility	41
1340	Plexus Corp.	PLXS	45.58	3	2	14.7	NIL	Electronics	56	2152	Wal-Mart Stores	WMT	68.87	1	2	15.7	2.9	Retail Store	57
746	POSCO ADR	PKX	52.91	3	3	18.9	3.4	Steel	7	137	Waters Corp.	WAT	156.74	2	3	23.1	NIL	Precision Instrument	23
1574	Pretium Resources	PVG	9.80	5	2	NMF	NIL	Precious Metals	3	1317	WESCO Int'l	WCC	58.10	3	2	13.9	NIL	Electrical Equipment	27
1197	Procter & Gamble	PG	87.45	1	2	20.4	3.1	Household Products	28	228	West Pharm. Svcs.	WST	72.97	2	2	36.3	0.7	Med Supp Non-Invasive	39
149	Public Serv. Enterprise	PEG	41.81	1	3	16.0	4.0	Electric Utility (East)	12	117	Weyerhaeuser Co.	WY	31.70	3	3	32.0	3.9	Paper/Forest Products	42
770	RLI Corp.	RLI	68.04	2	3	32.9	1.2	Insurance (Prop/Cas.)	46	2414	Whiting Petroleum	WLL	8.36	5	4	NMF	NIL	Petroleum (Producing)	9
2432	RPC Inc. ▼	RES	18.64	3	4	NMF	NIL	Oilfield Svcs/Equip.	5	2384	Wiley (John) & Sons	JWA	51.30	3	3	17.1	2.4	Publishing	54
2114	Ralph Lauren	RL	97.64	3	3	18.1	2.1	Apparel	86	611	Williams Cos. ▲	WMB	29.24	3	3	40.6	2.7	Oil/Gas Distribution	8
2413	Range Resources Corp.	RRC	38.07	3	3	NMF	0.2	Petroleum (Producing)	9	625	Williams Partners L.P.	WPZ	36.79	4	2	21.0	9.2	Pipeline MLPs	6
1540	Realty Income Corp.	O	62.66	2	3	47.1	3.9	R.E.I.T.	50	612	World Fuel Services ▲	INT	45.98	3	2	16.7	0.5	Oil/Gas Distribution	8
2148	Rent-A-Center	RCII	9.26	3	4	7.9	3.5	Retail Store	57	2375	Wynn Resorts	WYNN	92.98	3	1	30.4	2.2	Hotel/Gaming	80
1725	Reynold Corp.	RXN	19.11	3	3	19.1	NIL	Machinery	68	2237	Xcel Energy Inc.	XEL	40.54	1	3	17.9	3.5	Electric Utility (West)	31
1994	Reynolds American	RAI	47.27	2	3	20.3	3.9	Tobacco	15	1735	Xylem Inc.	XYL	49.15	2	2	24.2	1.3	Machinery	68
1590	Rio Tinto plc	RIO	32.55	3	4	16.3	4.9	Metals & Mining (Div.)	2	1579	Yamana Gold	AUY	3.79	5	3	25.3	0.5	Precious Metals	3
2003	Rosetta Stone	RST	7.38	4	1	NMF	NIL	Educational Services	25	2648	Zillow Group 'C'	Z	33.58	3	3	NMF			



Stocks Ranked 1 (Highest) for Relative Safety

Page No.	Stock Name	Rank Current					Industry Group	Industry Rank	Page No.	Stock Name	Rank Current					Industry Group	Industry Rank
		Recent Price	Time-liness	Tech-nical	P/E Ratio	% Est'd Yield					Recent Price	Time-liness	Tech-nical	P/E Ratio	% Est'd Yield		
1965	AB InBev ADR	127.96	3	-	39.1	3.4	Beverage	38	2566	Marsh & McLennan	65.14	4	2	18.9	2.1	Financial Svcs. (Div.)	58
920	AT&T Inc.	39.36	3	3	13.7	5.0	Telecom. Services	71	2567	MasterCard Inc.	101.73	3	2	27.2	0.7	Financial Svcs. (Div.)	58
198	Abbott Labs.	41.17	2	4	18.4	2.5	Med Supp Non-Invasive	39	1923	McCormick & Co.	94.85	2	2	24.6	1.8	Food Processing	49
2603	Accenture Plc	117.53	3	3	21.0	2.1	IT Services	64	3625	McDonald's Corp.	111.25	2	3	19.5	3.4	Restaurant	87
2442	Air Products & Chem.	133.82	-	-	17.1	2.6	Chemical (Diversified)	88	219	McKesson Corp.	162.10	3	3	11.7	0.7	Med Supp Non-Invasive	39
754	Alleghany Corp.	524.98	2	3	20.3	NIL	Insurance (Prop/Cas.)	46	186	Medtronic plc	83.55	3	2	15.2	2.1	Med Supp Invasive	48
755	Allstate Corp.	69.29	3	3	13.4	1.9	Insurance (Prop/Cas.)	46	2620	Merck & Co.	62.09	3	2	16.4	3.0	Drug	45
2604	Amdocs Ltd.	59.61	2	3	20.9	1.3	IT Services	64	1950	Microsoft Corp.	57.66	2	3	20.0	2.7	Computer Software	14
2536	Amer. Express	60.08	4	3	10.8	2.1	Financial Svcs. (Div.)	58	955	Motorola Solutions	73.80	4	2	15.8	2.4	Telecom. Equipment	37
201	AmerisourceBergen	81.09	4	4	14.3	1.7	Med Supp Non-Invasive	39	1926	Nestle SA ADS	75.63	2	1	24.4	3.1	Food Processing	49
827	Amgen	162.80	2	4	14.3	2.6	Biotechnology	40	546	New Jersey Resources	33.30	3	3	19.6	2.9	Natural Gas Utility	41
2539	Aon plc	110.59	5	2	19.5	1.2	Financial Svcs. (Div.)	58	2159	NIKE, Inc. 'B'	51.22	4	3	22.7	1.2	Shoe	81
758	Arch Capital Group	79.30	3	3	17.5	NIL	Insurance (Prop/Cas.)	46	719	Northrop Grumman	219.44	5	4	19.9	1.6	Aerospace/Defense	59
544	Atmos Energy	72.17	3	3	20.6	2.5	Natural Gas Utility	41	548	Northwest Nat. Gas	59.37	3	2	26.7	3.2	Natural Gas Utility	41
2605	Automatic Data Proc.	87.38	2	2	24.8	2.6	IT Services	64	1623	Novartis AG ADR	76.31	2	3	23.5	3.6	Drug	45
2508	Bank of Nova Scotia	70.78	2	2	11.9	4.2	Bank	51	1211	Nuveen Muni Value Fund	10.00	-	3	NMF	4.0	Investment Co.	-
173	Bard (C.R.)	223.42	3	3	21.5	0.5	Med Supp Invasive	48	2592	Oracle Corp.	38.42	3	2	13.9	1.7	Computer Software	14
175	Becton, Dickinson	172.79	4	3	20.1	1.7	Med Supp Invasive	48	2451	PPG Inds.	92.81	4	3	15.1	1.7	Chemical (Diversified)	88
1175	Bemis Co.	50.46	2	2	19.2	2.3	Packaging & Container	82	2619	Paychex, Inc.	56.14	3	2	25.6	3.3	IT Services	64
759	Berkley (W.R.)	58.06	3	3	17.2	0.9	Insurance (Prop/Cas.)	46	1979	PepsiCo, Inc.	106.95	2	3	22.0	2.8	Beverage	38
760	Berkshire Hathaway 'B'	144.30	2	2	15.7	NIL	Insurance (Prop/Cas.)	46	1629	Pfizer, Inc.	32.69	1	1	19.7	3.7	Drug	45
828	Bio-Techne Corp.	105.22	2	2	35.2	1.2	Biotechnology	40	2234	Pinnacle West Capital	75.12	3	3	18.3	3.5	Electric Utility (West)	31
706	Boeing	135.10	3	5	14.2	3.5	Aerospace/Defense	59	578	Praxair Inc.	118.49	3	2	20.9	2.7	Chemical (Specialty)	62
1612	Bristol-Myers Squibb	50.05	2	3	19.3	3.0	Drug	45	1197	Procter & Gamble	87.45	2	2	20.4	3.1	Household Products	28
1967	Brown-Forman 'B'	45.38	3	4	25.2	1.5	Beverage	38	149	Public Serv. Enterprise	41.81	2	3	16.0	4.0	Electric Utility (East)	12
966	CVS Health	87.19	4	3	14.5	1.9	Pharmacy Services	84	1539	Public Storage	215.83	3	3	29.9	3.5	R.E.I.T.	50
2509	Can. Imperial Bank	101.07	3	2	10.6	4.8	Bank	51	960	Qualcomm Inc.	66.10	3	3	14.2	3.4	Telecom. Equipment	37
2136	Canadian Tire Corp. 'A' (TSE)	130.95	4	2	14.4	1.8	Retail Store	57	721	Raytheon Co.	137.63	3	3	17.8	2.1	Aerospace/Defense	59
204	Cardinal Health	75.73	3	3	17.3	2.5	Med Supp Non-Invasive	39	722	Rockwell Collins	84.10	3	5	14.6	1.6	Aerospace/Defense	59
504	Chevron Corp.	101.79	2	3	73.2	4.2	Petroleum (Integrated)	18	1726	Roper Tech.	172.52	4	2	25.6	0.7	Machinery	68
762	Chubb Ltd.	125.34	3	2	12.3	2.2	Insurance (Prop/Cas.)	46	2523	Royal Bank of Canada	83.53	4	3	12.3	4.1	Bank	51
1189	Church & Dwight	48.20	3	3	26.5	1.5	Household Products	28	1630	Sanofi ADR	37.73	1	4	20.3	4.6	Drug	45
1968	Coca-Cola	41.97	2	3	22.0	3.5	Beverage	38	1932	Saputo Inc.	47.50	4	3	26.4	1.3	Food Processing	49
1191	Colgate-Palmolive	71.93	2	2	25.8	2.3	Household Products	28	1142	Sherwin-Williams	270.85	2	2	21.4	1.3	Retail Building Supply	72
779	Commerce Bancshs.	48.52	2	2	17.6	1.9	Bank (Midwest)	19	1934	Smucker (J.M.)	132.22	2	2	20.2	2.3	Food Processing	49
1909	ConAgra Foods	48.38	-	-	20.3	2.1	Food Processing	49	375	Starbucks Corp.	52.61	3	2	25.9	1.8	Restaurant	47
141	Consol. Edison	73.24	3	3	17.2	3.7	Electric Utility (East)	12	191	Stryker Corp.	114.81	2	3	23.3	1.3	Med Supp Invasive	88
2137	Costco Wholesale	149.11	4	3	26.8	1.2	Retail Store	57	2598	Synopsys, Inc.	59.62	3	3	19.2	NIL	Computer Software	14
158	Deere & Co.	86.61	2	4	23.5	2.8	Heavy Truck & Equip	55	1958	Sysco Corp.	48.27	2	1	21.4	2.6	Retail/Wholesale Food	79
1974	Diageo plc	108.15	2	2	22.1	3.2	Beverage	38	2218	TJX Companies	73.16	4	3	20.7	1.4	Retail (Softlines)	63
2333	Disney (Walt)	91.17	3	4	15.3	1.6	Entertainment	76	2151	Target Corp.	67.36	3	4	13.5	3.6	Retail Store	57
1600	Du Pont	69.50	-	-	21.5	2.3	Chemical (Basic)	4	1381	Texas Instruments	69.25	3	4	22.1	2.2	Semiconductor	75
564	Ecolab Inc.	116.60	3	2	25.5	1.2	Chemical (Specialty)	62	1774	3M Company	169.95	3	1	20.4	2.6	Diversified Co.	36
1305	Emerson Electric	49.88	-	-	16.2	3.8	Electrical Equipment	27	1937	Tootsie Roll Ind.	35.73	3	3	31.9	1.0	Food Processing	49
2024	Everest Re Group Ltd.	195.34	4	3	11.5	2.5	Reinsurance	33	1561	Torchmark Corp.	64.31	3	3	14.3	0.9	Insurance (Life)	22
144	Eversource Energy	54.13	3	3	17.9	3.5	Electric Utility (East)	12	772	Travelers Cos.	115.18	4	3	11.8	2.3	Insurance (Prop/Cas.)	46
505	Exxon Mobil Corp.	86.77	2	3	31.3	3.5	Petroleum (Integrated)	18	1941	Unilever PLC ADR	42.86	2	2	21.4	3.3	Food Processing	49
309	FedEx Corp.	170.74	3	3	14.8	0.9	Air Transport	92	349	Union Pacific	96.72	3	3	18.6	2.3	Railroad	91
2556	Gallagher (Arthur J.)	50.02	3	2	17.3	3.0	Financial Svcs. (Div.)	58	316	United Parcel Serv.	108.13	3	3	18.4	3.0	Air Transport	92
712	Gen'l Dynamics	151.88	3	2	15.7	2.0	Aerospace/Defense	59	1776	United Technologies	99.99	1	2	15.1	2.6	Diversified Co.	36
1913	Gen'l Mills	61.91	3	1	20.5	3.1	Food Processing	49	814	UnitedHealth Group	143.39	4	3	17.4	1.7	Medical Services	70
991	Genuine Parts	96.35	2	2	20.3	2.7	Auto Parts	93	194	Varian Medical Sys.	96.38	-	-	21.3	NIL	Med Supp Invasive	48
1616	GlaxoSmithKline ADR	41.76	1	2	28.2	4.8	Drug	45	936	Verizon Commun.	50.27	4	2	12.7	4.6	Telecom. Services	71
1310	Grainger (W.W.)	205.86	3	2	17.7	2.4	Electrical Equipment	27	2576	Visa Inc.	81.58	4	3	27.3	0.8	Financial Svcs. (Div.)	58
1139	Home Depot	125.74	3	3	19.4	2.4	Retail Building Supply	72	917	WEC Energy Group	58.30	3	3	19.4	3.5	Electric Util. (Central)	16
1755	Honeywell Int'l	107.87	3	3	16.0	2.2	Diversified Co.	36	554	WGL Holdings Inc.	61.40	2	3	19.2	3.2	Natural Gas Utility	41
1917	Hormel Foods	38.27	3	4	23.3	1.7	Food Processing	49	2152	Wal-Mart Stores	68.87	2	2	15.7	2.9	Retail Store	57
732	Illinois Tool Works	115.08	4	2	20.0	2.3	Metal Fabricating	17	421	Waste Management	62.54	3	3	21.5	2.7	Environmental	24
1360	Intel Corp.	37.75	4	3	14.8	2.8	Semiconductor	75	2237	Xcel Energy Inc.	40.54	2	3	17.9	3.5	Electric Utility (West)	31
1402	Int'l Business Mach.	150.72	3	2	12.2	3.8	Computers/Peripherals	83	195	Zimmer Biomet Hldgs.	129.10	5	3	15.6	0.8	Med Supp Invasive	48

Stocks Ranked 2 (Above Average) for Relative Safety

Page No.	Stock Name	Rank Current					Industry Group	Industry Rank	Page No.	Stock Name	Rank Current					Industry Group	Industry Rank
		Recent Price	Time-liness	Tech-nical	P/E Ratio	% Est'd Yield					Recent Price	Time-liness	Tech-nical	P/E Ratio	% Est'd Yield		
1204	Adams Divers. Equity Fd	12.97	-	3	NMF	1.5	Investment Co.	-	2022	AXIS Capital Hldgs.	56.72	3	3	15.2	2.5	Reinsurance	33
2119	Advance Auto Parts	142.99	5	3	19.3	0.2	Retail Automotive	95	2502	BB&T Corp.	37.89	3	2	13.5	3.2	Bank	51
793	Aetna Inc.	111.43	4	2	13.6	0.9	Medical Services	70	1174	Ball Corp.	80.92	3	3	16.2	0.6	Packaging & Container	82
902	ALLETE	58.99	3	2	18.6	3.6	Electric Util. (Central)	16	2505	Bank of Hawaii	73.25	3	3	18.5	2.6	Bank	51
903	Alliant Energy	37.38	2	2	19.2	3.2	Electric Util. (Central)	16	2506	Bank of Montreal	85.20	3	2	12.5	4.1	Bank	51
2624	Alphabet Inc.	795.26	3	3	28.0	NIL	Internet	32	174	Baxter Int'l Inc.	48.06	-	-	27.3	1.1	Med Supp Invasive	48
1991	Altria Group	62.66	3	3	20.3	3.9	Tobacco	15	2165	Bed Bath & Beyond	40.24	3	3	8.4	1.2	Retail (Hardlines)	61
904	Ameren Corp.	48.91	3	2	18.7	3.6	Electric Util. (Central)	16	202	Bio-Rad Labs. 'A'	162.33	3	3	46.0	NIL	Med Supp Non-Invasive	39
905	Amer. Elec. Power	63.37	2	3	15.5	3.7											

Continued from preceding page

Stocks Ranked 2 (Above Average) for Relative Safety

Page No.	Stock Name	Recent Price	Time-liness	Rank	Current	P/E	% Est'd	Yield	Industry Group	Industry Rank	Page No.	Stock Name	Recent Price	Time-liness	Rank	Current	P/E	% Est'd	Yield	Industry Group	Industry Rank	
1814	Check Point Software (NDQ)	77.23	3	4	19.1	NIL			E-Commerce	65	2129	O'Reilly Automotive (NDQ)	278.07	3	3	25.0	NIL			Retail Automotive	95	
356	Chesapeake Factory (NDQ)	50.93	4	3	18.3	1.9			Restaurant	87	915	Otter Tail Corp. (NDQ)	34.20	3	2	21.1	3.7			Electric Util. (Central)	16	
545	Chesapeake Utilities	62.10	4	3	19.8	2.0			Natural Gas Utility	41	223	Owens & Minor	33.29	2	4	16.2	3.1			Med Supp Non-Invasive	39	
798	Cigna Corp.	123.65	-	-	15.3	NIL			Medical Services	70	2520	PNC Financial Serv.	89.86	3	4	12.3	2.4			Bank	51	
763	Cincinnati Financial (NDQ)	75.24	4	3	24.4	2.6			Insurance (Prop/Cas.)	46	148	PPL Corp.	33.41	-	-	11.8	4.7			Electric Utility (East)	12	
386	Cintas Corp. (NDQ)	108.40	2	2	24.7	1.2			Industrial Services	69	366	Panera Bread Co. (NDQ)	192.21	3	2	27.9	NIL			Restaurant	87	
944	Cisco Systems (NDQ)	30.44	3	2	12.7	3.7			Telecom. Equipment	37	787	Park National (ASE)	95.01	2	3	17.6	4.0			Bank (Midwest)	19	
1190	Clorox Co.	121.80	2	3	23.1	2.7			Household Products	28	1766	Parker-Hannifin (NDQ)	122.82	2	3	17.9	2.1			Diversified Co.	36	
2610	Cognizant Technology (NDQ)	50.22	4	4	14.6	NIL			IT Services	64	224	Patterson Cos. (NDQ)	44.58	2	3	17.8	2.2			Med Supp Non-Invasive	39	
1020	Comcast Corp. (NDQ)	64.88	5	3	18.6	1.7			Cable TV	73	259	PayPal Holdings (NDQ)	39.83	-	-	32.6	NIL			Financial Svcs. (Div.)	58	
207	Cooper Cos.	180.68	3	1	24.5	NIL			Med Supp Non-Invasive	39	1508	People's United Fin'l (NDQ)	15.64	3	2	17.0	4.3			Thrift	29	
2124	Copart, Inc. (NDQ)	54.12	4	3	22.6	NIL			Retail Automotive	95	1993	Philip Morris Int'l	96.56	2	2	20.3	4.3			Tobacco	15	
358	Cracker Barrel (NDQ)	132.09	5	1	16.1	3.5			Restaurant	87	2235	Portland General	41.77	3	3	18.8	3.2			Electric Utility (West)	31	
2512	Cullen/Frost Bankers	73.00	1	3	16.3	3.0			Bank	51	2270	Price (T. Rowe) Group (NDQ)	65.21	4	3	14.0	3.4			Financial Svcs. (Div.)	58	
1205	DNP Select Inc. Fund	10.17	-	3	NMF	4.4			Investment Co.	-	769	Progressive (Ohio)	32.08	3	3	18.8	2.8			Insurance (Prop/Cas.)	46	
2612	DST Systems	112.98	-	-	20.5	1.2			IT Services	64	810	Quest Diagnostics	83.70	3	3	16.2	1.9			Medical Services	70	
908	DTE Energy	92.84	2	2	18.5	3.4			Electric Util. (Central)	16	770	RLI Corp.	68.04	2	3	32.9	1.2			Insurance (Prop/Cas.)	46	
1748	Danaher Corp.	76.43	-	-	19.3	0.7			Diversified Co.	36	1540	Realty Income Corp.	62.66	2	3	47.1	3.9			R.E.I.T.	50	
800	DaVita Inc. (NDQ)	62.51	4	4	16.4	NIL			Medical Services	70	1560	Reinsurance Group	110.03	3	3	11.5	1.5			Insurance (Life)	22	
179	Dentsply Sirona (NDQ)	59.06	-	-	21.0	0.5			Med Supp Invasive	48	2027	RenaissanceRe Hldgs.	123.34	3	3	15.4	1.0			Reinsurance	33	
1031	Deutsche Telekom ADR (PNK)	15.97	4	3	22.8	3.9			Telecom. Utility	30	416	Republic Services	50.24	3	3	22.8	2.5			Environmental	24	
2140	Dollar Tree, Inc. (NDQ)	76.25	3	1	19.6	NIL			Retail Store	57	1994	Reynolds American	47.27	2	3	20.3	3.9			Tobacco	15	
142	Dominion Resources	73.37	2	2	18.7	4.0			Electric Utility (East)	12	1644	Robert Half Int'l	38.06	4	5	13.6	2.4			Human Resources	78	
1710	Donaldson Co.	36.41	2	2	23.6	1.9			Machinery	68	406	Rollins, Inc.	28.26	4	2	34.9	1.6			Industrial Services	69	
1711	Dover Corp.	67.54	2	2	19.8	2.6			Machinery	68	2216	Ross Stores (NDQ)	63.55	4	3	22.5	0.9			Retail (Softlines)	63	
1975	Dr Pepper Snapple	87.66	3	3	19.5	2.5			Beverage	38	516	Royal Dutch Shell 'B'	53.83	4	4	26.1	7.0			Petroleum (Integrated)	18	
143	Duke Energy	77.90	2	2	17.1	4.4			Electric Utility (East)	12	453	S&P Global	122.89	4	2	23.1	1.2			Information Services	74	
987	Eaton Corp. plc	63.19	3	2	14.5	3.6			Auto Parts	93	2596	SAP SE (NDQ)	87.66	3	2	26.6	1.5			Computer Software	14	
2227	Edison Int'l	72.07	3	3	18.1	2.9			Electric Utility (West)	31	1620	SEI Investments (NDQ)	44.44	3	3	20.7	1.3			IT Services	64	
2228	El Paso Electric	43.74	2	2	17.9	2.9			Electric Utility (West)	31	250	SCANA Corp.	70.59	2	2	17.3	3.4			Electric Utility (East)	12	
1948	Empire Company Ltd. (TSE)	19.60	3	4	10.6	2.1			Retail/Wholesale Food	79	2343	Schlumberger Ltd.	81.39	1	3	74.0	2.5			Oilfield Svcs/Equip.	5	
909	Empire Dist. Elec.	34.27	-	-	25.6	3.1			Electric Util. (Central)	16	2454	Scrips Networks	61.69	3	3	11.9	1.6			Entertainment	76	
605	Enbridge Inc. (TSE)	58.16	5	2	24.1	3.6			Oil/Gas Distribution	8	2236	Sempra Energy	105.06	3	2	25.8	3.1			Electric Utility (West)	31	
2023	Endurance Specialty	91.88	-	-	14.8	1.7			Reinsurance	33	1933	Sensient Techn.	72.52	2	2	21.6	1.5			Food Processing	49	
445	Equifax, Inc.	130.28	4	3	23.6	1.0			Information Services	74	1024	Shaw Commun. 'B' (TSE)	26.38	2	4	21.6	4.5			Cable TV	73	
764	Erie Indemity (NDQ)	104.72	2	3	27.9	2.8			Insurance (Prop/Cas.)	46	1543	Simon Property Group	198.44	4	2	32.3	3.4			R.E.I.T.	50	
389	Expeditors Int'l (NDQ)	49.42	3	3	20.0	1.6			Industrial Services	69	1728	Snap-on Inc.	149.56	4	2	16.3	1.6			Machinery	68	
446	FactSet Research	155.84	4	1	23.7	1.3			Information Services	74	1185	Sonoco Products	50.60	3	2	18.3	2.9			Packaging & Container	82	
1138	Fastenal Co. (NDQ)	38.16	3	3	21.7	3.1			Retail Building Supply	72	550	South Jersey Inds.	28.61	2	2	21.7	3.9			Natural Gas Utility	41	
1524	Federal Rty. Inv. Trust	147.10	2	2	46.4	2.7			R.E.I.T.	50	151	Southern Co.	51.09	2	2	18.1	4.5			Electric Utility (East)	12	
2552	Fidelity National	75.95	2	2	27.8	1.4			Financial Svcs. (Div.)	58	552	Spire Inc.	61.70	3	3	18.4	3.2			Natural Gas Utility	41	
2614	Fiserv Inc. (NDQ)	100.06	3	3	21.8	NIL			IT Services	64	1729	Stanley Black & Decker	120.00	3	3	18.0	1.9			Machinery	68	
1751	Fortis Inc. (TSE)	42.46	3	3	19.0	3.8			Diversified Co.	36	417	Stericycle Inc. (NDQ)	74.85	3	3	18.6	NIL			Environmental	24	
2555	Franklin Resources	34.23	1	3	11.8	2.4			Financial Svcs. (Div.)	58	190	STERIS plc	69.29	3	3	17.3	1.6			Med Supp Invasive	48	
1308	Garmin Ltd. (NDQ)	48.64	2	3	19.0	4.3			Electrical Equipment	27	1379	Taiwan Semic. ADR	30.86	5	3	15.7	3.0			Semiconductor	75	
448	Gartner Inc.	88.13	3	3	31.6	NIL			Information Services	74	193	Teleflex Inc.	167.59	3	2	29.9	0.8			Med Supp Invasive	48	
2557	Global Payments	74.21	3	3	32.7	0.1			Financial Svcs. (Div.)	58	934	TELV Corporation (TSE)	42.80	3	3	16.0	4.6			Telecom. Services	71	
1803	Goldman Sachs	172.63	2	4	9.7	1.5			Investment Banking	10	1631	Teva Pharm. ADR	43.26	3	3	8.0	3.2			Drug	45	
765	Hanover Insurance	78.76	4	4	13.2	2.3			Insurance (Prop/Cas.)	46	134	Thermo Fisher Sci.	151.67	2	3	28.1	0.4			Precision Instrument	23	
1333	Harris Corp.	90.39	3	3	15.6	2.4			Electronics	56	454	Thomson Reuters (TSE)	52.26	3	3	24.7	2.6			Information Services	74	
2229	Hawaiian Elec.	28.95	1	3	13.0	4.3			Electric Utility (West)	31	2528	Toronto-Dominion (TSE)	58.93	3	3	12.6	3.9			Bank	51	
394	Healthcare Svcs. (NDQ)	37.49	3	3	34.1	2.1			Industrial Services	69	519	Total ADR	48.54	2	4	12.5	5.7			Petroleum (Integrated)	18	
321	Heartland Express (NDQ)	18.16	3	3	25.2	0.4			Trucking	94	2574	Total System Svcs.	48.31	3	3	22.1	0.8			Financial Svcs. (Div.)	58	
2615	Henry (Jack) & Assoc. (NDQ)	82.52	3	2	27.1	1.4			IT Services	64	111	Toyota Motor ADR	115.05	4	3	12.0	3.5			Automotive	60	
1916	Hershey Co.	96.31	3	2	22.1	2.6			Food Processing	49	610	TransCanada Corp.	47.27	2	2	27.6	4.8			Oil/Gas Distribution	8	
1312	Hubbell Inc.	103.24	3	2	19.0	2.4			Electrical Equipment	27	1213	Tri-Continental	20.93	-	3	NMF	3.8				Investment Co.	-
323	Hunt (J.B.) (NDQ)	78.99	5	3	19.9	1.1			Trucking	94	553	UGI Corp.	44.71	3	2	20.5	2.1			Natural Gas Utility	41	
2230	IDACORP, Inc.	75.79	3	3	18.9	2.9			Electric Utility (West)	31	411	UniFirst Corp.	130.80	3	3	22.8	0.1			Industrial Services	69	
1714	IDEX Corp.	86.79	5	1	22.7	1.6			Machinery	68	790	U.S. Bancorp	43.01	3	2	13.0	2.6			Bank (Midwest)	19	
509	Imperial Oil Ltd. (ASE)	32.51	1	4	39.6	1.4			Petroleum (Integrated)	18	2117	V.F. Corp.	54.48	4	3	16.4	2.7			Apparel	86	
2616	Infosys Ltd. ADR	15.91	3	4	15.2	2.6			IT Services	64	2029	Validus Holdings	51.57	3	3	11.8	2.7			Reinsurance	33	
1795	Intercontinental Exch.	267.65	4	1	19.1	1.3			Brokers & Exchanges	47	916	Vectren Corp.	48.82	3	3	19.6	3.4			Electric Util. (Central)	16	
2588	Intuit Inc. (NDQ)	107.15	3	3	25.8	1.1			Computer Software	14												



**HIGHEST DIVIDEND YIELDING STOCKS (Based upon estimated year-ahead dividends per share)**

Page No.	Stock Name	Recent Price	Time-liness	Safety	P/E Ratio	Est'd Yield	Industry Group	Industry Rank	Page No.	Stock Name	Recent Price	Time-liness	Safety	P/E Ratio	Est'd Yield	Industry Group	Industry Rank
1512	Annaly Capital Mgmt.	10.10	2	3	8.6	11.9	R.E.I.T.	50	619	Enterprise Products	27.03	3	3	21.3	6.1	Pipeline MLPs	6
617	Energy Transfer	36.44	2	3	24.6	11.6	Pipeline MLPs	6	2387	Gannett Co.	10.64	3	3	10.2	6.1	Newspaper	-
2217	Stage Stores	5.16	-	4	19.1	11.6	Retail (Softlines)	63	2175	GameStop Corp.	24.82	3	3	6.1	6.0	Retail (Hardlines)	61
946	Comtech Telecom.	10.88	1	4	NMF	11.0	Telecom. Equipment	37	1764	National Presto Ind.	85.90	3	3	15.4	5.9	Diversified Co.	36
1836	StoneMor Partners L.P.	24.78	1	3	NMF	10.7	Funeral Services	34	1596	CF Industries	23.46	2	3	27.9	5.8	Chemical (Basic)	4
331	Frontline Ltd.	7.56	3	5	7.2	10.6	Maritime	53	2164	Barnes & Noble	10.50	-	4	35.0	5.7	Retail (Hardlines)	61
623	Suburban Propane	33.71	1	3	21.9	10.5	Pipeline MLPs	6	2307	Cedar Fair L.P.	58.03	5	3	16.0	5.7	Recreation	85
1032	Frontier Commun.	4.08	2	4	NMF	10.3	Telecom. Utility	30	507	HollyFrontier Corp.	23.80	2	3	16.6	5.7	Petroleum (Integrated)	18
2652	Apollo Investment	5.89	2	3	29.5	10.2	Public/Private Equity	1	397	Iron Mountain	34.15	2	3	30.0	5.7	Industrial Services	69
2655	Gladstone Capital	8.60	2	3	9.7	9.8	Public/Private Equity	1	513	PBF Energy	21.07	3	3	8.4	5.7	Petroleum (Integrated)	18
1209	Liberty All-Star	5.07	-	2	NMF	9.5	Investment Co.	-	2383	Time Inc.	13.30	-	3	8.5	5.7	Publishing	54
625	Williams Partners L.P.	36.79	2	4	21.0	9.2	Pipeline MLPs	6	519	Total ADR	48.54	2	2	12.5	5.7	Petroleum (Integrated)	18
616	DCP Midstream Partners	34.83	3	3	24.2	9.0	Pipeline MLPs	6	2360	Extended Stay America	13.70	3	3	15.4	5.5	Hotel/Gaming	80
2535	AllianceBernstein Hldg.	21.80	3	3	11.5	8.9	Financial Svcs. (Div.)	58	2200	Abercrombie & Fitch	15.39	3	3	22.3	5.4	Retail (Softlines)	63
1033	Telefonica SA ADR	9.73	2	4	17.1	8.7	Telecom. Utility	30	511	Western Refining	28.07	4	3	10.7	5.4	Petroleum (Integrated)	18
1203	Aberdeen Asia-Pac. Fd.	4.90	-	4	NMF	8.6	Investment Co.	-	1602	Mosaic Company	23.39	2	3	37.7	5.3	Chemical (Basic)	4
618	EnLink Midstream Part.	18.36	1	3	NMF	8.5	Pipeline MLPs	6	821	Computer Prog. & Sys.	26.21	1	3	23.2	5.2	Healthcare Information	11
2651	Apollo Global Mgmt	17.61	2	3	6.7	8.4	Public/Private Equity	1	102	Daimler AG	70.80	3	3	7.3	5.2	Automotive	60
947	Ericsson ADR	5.47	1	3	11.6	8.4	Telecom. Equipment	37	2515	HSBC Holdings PLC	38.33	1	3	10.0	5.2	Bank	51
1210	MFS Multimarket	5.90	-	4	NMF	8.1	Investment Co.	-	1532	Host Hotels & Resorts	15.70	3	3	17.4	5.2	R.E.I.T.	50
1804	Greenhill & Co.	22.95	1	3	12.7	7.8	Investment Banking	10	2203	Buckle (The), Inc.	21.30	2	3	9.4	5.1	Retail (Softlines)	63
570	Kronos Worldwide	7.70	2	4	59.2	7.8	Chemical (Specialty)	62	1518	DDR Corp.	16.37	3	3	51.2	5.1	R.E.I.T.	50
1028	CenturyLink Inc.	27.90	3	3	11.2	7.7	Telecom. Utility	30	1309	Gen'l Cable	14.25	3	4	14.8	5.1	Electrical Equipment	27
621	ONEOK Partners L.P.	41.87	2	3	18.0	7.5	Pipeline MLPs	6	607	ONEOK Inc.	50.03	1	3	27.8	5.1	Oil/Gas Distribution	8
1583	Alliance Resource	23.55	3	3	8.1	7.4	Metals & Mining (Div.)	2	1550	Welltower Inc.	70.33	3	3	24.0	5.1	R.E.I.T.	50
624	Sunoco Logistics Part.	26.89	2	3	24.0	7.4	Pipeline MLPs	6	920	AT&T Inc.	39.36	3	1	13.7	5.0	Telecom. Services	71
748	Russel Metals	20.77	1	3	18.5	7.3	Steel	7	105	Ford Motor	11.89	3	3	6.7	5.0	Automotive	60
1791	BGC Partners	8.85	3	3	9.1	7.2	Brokers & Exchanges	47	2396	Lamar Advertising	64.55	4	3	21.1	5.0	Advertising	66
615	Buckeye Partners L.P.	70.01	3	3	16.3	7.1	Pipeline MLPs	6	2364	Las Vegas Sands	57.45	3	2	9.1	5.0	Hotel/Gaming	80
1229	Pattern Energy Group	22.38	3	3	NMF	7.1	Power	26	2519	Nat'l Bank of Canada	45.68	3	2	26.9	5.0	Bank	51
1409	Seagate Technology	35.34	3	3	11.6	7.1	Computers/Peripherals	83	1558	Power Financial	31.25	3	3	11.0	5.0	Insurance (Life)	22
1034	Windstream Hldgs.	8.40	-	4	NMF	7.1	Telecom. Utility	30	2534	Aircastle Ltd.	19.72	3	3	10.2	4.9	Financial Svcs. (Div.)	58
1552	AEON	4.15	1	3	8.8	7.0	Insurance (Life)	22	2143	Kohl's Corp.	43.04	1	2	12.1	4.9	Retail Store	57
2654	Fortress Investment	5.13	3	3	5.2	7.0	Public/Private Equity	1	2315	Mattel, Inc.	30.71	2	2	22.3	4.9	Recreation	85
1531	Hospitality Properties	29.29	2	3	20.3	7.0	R.E.I.T.	50	1506	New York Community	13.93	2	3	12.7	4.9	Thrift	29
516	Royal Dutch Shell 'B'	53.83	3	2	26.1	7.0	Petroleum (Integrated)	18	1590	Rio Tinto plc	32.55	2	3	16.3	4.9	Metals & Mining (Div.)	2
622	Plains All Amer. Pipe.	32.46	1	3	41.6	6.8	Pipeline MLPs	6	2150	Stein Mart	6.09	3	3	14.5	4.9	Retail Store	57
502	BP PLC ADR	35.38	3	3	66.6	6.7	Petroleum (Integrated)	18	2509	Can. Imperial Bank	101.07	3	1	10.6	4.8	Bank	51
1218	Covanta Holding Corp.	15.20	3	3	NMF	6.6	Power	26	106	General Motors	31.40	4	3	5.3	4.8	Automotive	60
1206	Deutsche High Income	9.25	-	4	NMF	6.6	Investment Co.	-	1616	GlaxoSmithKline ADR	41.76	1	1	28.2	4.8	Drug	45
2106	Guess Inc.	13.72	2	3	16.5	6.6	Apparel	86	620	Magellan Midstream	71.48	3	3	19.9	4.8	Pipeline MLPs	6
1529	HCP Inc.	36.69	-	3	16.5	6.4	R.E.I.T.	50	2381	Quad/Graphics Inc.	24.87	3	4	21.8	4.8	Publishing	54
400	Macquarie Infrastructure	83.20	3	3	68.2	6.4	Industrial Services	69	610	TransCanada Corp.	47.27	2	2	27.6	4.8	Oil/Gas Distribution	8
2190	Pier 1 Imports	4.40	3	4	22.0	6.4	Retail (Hardlines)	61	907	CenterPoint Energy	22.51	2	3	22.5	4.7	Electric Util. (Central)	16
1422	Staples, Inc.	7.50	2	3	8.3	6.4	Office Equip/Supplies	20	360	DineEquity Inc.	78.38	4	3	13.7	4.7	Restaurant	87
1030	Consol. Commun.	24.66	3	3	72.5	6.3	Telecom. Utility	30	2656	KKR & Co. L.P.	13.72	1	3	4.4	4.7	Public/Private Equity	1
1541	Ryman Hospitality	50.25	3	3	17.4	6.3	R.E.I.T.	50	1534	Liberty Property	40.21	3	3	16.0	4.7	R.E.I.T.	50
1547	W.P. Carey Inc.	62.25	3	3	28.8	6.3	R.E.I.T.	50	2568	Navigent Corp.	13.61	-	3	7.3	4.7	Financial Svcs. (Div.)	58
2398	National CineMedia	14.10	3	3	17.6	6.2	Advertising	66	148	PPL Corp.	33.41	-	2	11.8	4.7	Electric Utility (East)	12
2653	Blackstone Group LP	23.61	1	3	9.9	6.1	Public/Private Equity	1	608	Pembina Pipeline Corp.	40.92	2	3	35.0	4.7	Oil/Gas Distribution	8

**STOCKS WITH HIGH 3- TO 5-YEAR PRICE APPRECIATION POTENTIAL**

Some of the stocks tabulated below are very risky and appreciation potentialities tentative. Please read the full-page reports in Ratings & Reports to gain an understanding of the risks entailed. Some of these stocks may not be timely investment commitments. (See the Performance Ranks below.)

Page No.	Stock Name	Recent Price	5-year Potential	Time-liness	Safety	Industry Group	Industry Rank	Page No.	Stock Name	Recent Price	5-year Potential	Time-liness	Safety	Industry Group	Industry Rank
1126	Hovnanian Enterpr. 'A'	1.58	405%	-	5	Homebuilding	90	2181	Liberty Interactive	18.78	165%	4	3	Retail (Hardlines)	61
2435	Seadrill Ltd.	2.32	395%	3	5	Oilfield Svcs/Equip.	5	1621	Mylan N.V.	37.39	165%	3	3	Drug	45
2438	Tidewater Inc.	2.97	390%	-	5	Oilfield Svcs/Equip.	5	1625	Opko Health	9.40	165%	3	3	Drug	45
1632	Valeant Pharm. Int'l	22.07	375%	3	5	Drug	45	799	Community Health	10.53	160%	-	4	Medical Services	70
2202	Ascena Retail Group	5.00	330%	3	3	Retail (Softlines)	63	2586	FireEye Inc.	12.53	160%	1	4	Computer Software	14
372	Ruby Tuesday	3.10	320%	-	4	Restaurant	87	1222	First Solar, Inc.	39.57	160%	3	3	Power	26
1231	SunPower Corp.	8.54	310%	1	4	Power	26	513	PBF Energy	21.07	160%	3	3	Petroleum (Integrated)	18
840	Senomyx, Inc.	2.72	305%	-	5	Biotechnology	40	2217	Stage Stores	5.16	160%	-	4	Retail (Softlines)	63
813	Tenet Healthcare	23.68	290%	4	4	Medical Services	70	2196	Weight Watchers	10.18	160%	1	5	Retail (Hardlines)	61
2417	CARBO Ceramics	10.56	280%	1	4	Oilfield Svcs/Equip.	5	988	Federal-Mogul Hldgs.	9.20	155%	-	4	Auto Parts	93
1324	Avigilon Corp.	8.34	260%	4	3	Electronics	56	2155	Cross, Inc.	8.08	150%	1	4	Shoe	81
2394	Harle-Hanks	1.52	260%	-	5	Advertising	66	2175	GameStop Corp.	24.82	150%	3	3	Retail (Hardlines)	61
1760	LSB Inds.	6.22	260%	1	5	Diversified Co.	36	2363	La Quinta Hldgs.	10.91	150%	-	3	Hotel/Gaming	80
1597	CVR Partners, LP	4.86	250%	2	3	Chemical (Basic)	4	572	Methanex Corp.	37.80	150%	1	3	Chemical (Specialty)	62
801	Envision Healthcare	21.83	245%	-	3	Medical Services	70	2185	Movado Group	22.10	150%	3	3	Retail (Hardlines)	61
337	Teekay Corp.	7.92	245%	4	5	Maritime	53	2149	Sears Holdings	10.99	150%	3	5	Retail Store	57
351	BJ's Restaurants	35.42	240%	4	3	Restaurant	87	841	United Therapeutics	116.97	150%	4	3	Biotechnology	40
2429	Noble Corp. plc	5.77	240%	2	4	Oilfield Svcs/Equip.	5	2653	Blackstone Group LP	23.61	145%	1	3	Public/Private Equity	1
2440	Weatherford Int'l plc	5.91	240%	1	4	Oilfield Svcs/Equip.	5	352	Bloom'n Brands	17.18	145%	3	3	Restaurant	87
1330	Fitbit Inc.	13.54	230%	-	4	Electronics	56	588	CalAmp Corp.	13.23	145%	3	4	Wireless Networking	77
1626	PDL BioPharma	3.19	230%	3	5	Drug	45	1397	Cray Inc.	21.33	145%	4	4	Computers/Peripherals	83
2572	SLM Corporation	7.25	230%	-	4	Financial Svcs. (Div.)	58	1181	Owens-Illinois	17.37	145%	2	3	Packaging & Container	82
2347	Sirius XM Holdings	4.10	215%</												

**BIGGEST "FREE FLOW" CASH GENERATORS**

Stocks of companies that have earned more "cash flow" in the last 5 years than was required to build plant and pay dividends

Page No.	Stock Name	Ratio "Cash Flow"			Safety Rank	Industry Group	Industry Rank	Page No.	Stock Name	Ratio "Cash Flow"			Safety Rank	Industry Group	Industry Rank
		Recent Price	To Cash Out	Time-liness						Recent Price	To Cash Out	Time-liness			
2656	KKR & Co. L.P.	13.72	87.97	1	3	Public/Private Equity	1	724	TASER Int'l	22.63	6.91	3	4	Aerospace/Defense	59
2108	Iconix Brand Group	7.89	85.92	3	4	Apparel	86	1726	Roper Tech.	172.52	6.89	4	1	Machinery	68
1814	Check Point Software	77.23	58.25	3	2	E-Commerce	65	2158	Madden (Steven) Ltd.	33.24	6.87	3	3	Shoe	81
2640	Priceline Group (The)	1454.97	22.71	4	3	Internet	32	171	ABIOMED Inc.	129.07	6.75	3	3	Med Supp Invasive	48
834	Jazz Pharmac. plc	119.35	21.91	3	3	Biotechnology	40	2555	Franklin Resources	34.23	6.75	1	2	Financial Svcs. (Div.)	58
2636	Netflix, Inc.	118.79	20.39	3	3	Internet	32	1322	Anixter Int'l	60.90	6.73	1	3	Electronics	56
1609	Allergan plc	227.94	16.33	4	3	Drug	45	593	InterDigital Inc.	78.65	6.57	4	3	Wireless Networking	77
598	Ubiquiti Networks	49.53	16.03	4	3	Wireless Networking	77	956	NETGEAR	52.70	6.54	3	3	Telecom. Equipment	37
1136	Toll Brothers	28.61	15.52	4	3	Homebuilding	90	841	United Therapeutics	116.97	6.47	4	3	Biotechnology	40
809	MEDNAX, Inc.	66.98	15.00	4	2	Medical Services	70	941	Arris Int'l plc	28.90	6.41	4	3	Telecom. Equipment	37
1720	Middleby Corp. (The)	117.68	14.78	4	3	Machinery	68	221	Natus Medical	39.70	6.32	4	3	Med Supp Non-Invasive	39
2554	FleetCor Technologies	173.56	14.17	4	3	Financial Svcs. (Div.)	58	154	Actuant Corp.	22.26	6.31	2	3	Heavy Truck & Equip	55
1131	NVR, Inc.	1602.40	14.10	4	2	Homebuilding	90	1234	AECOM	27.94	6.28	3	3	Engineering & Const	35
2332	Discovery Commun.	25.21	13.61	3	3	Entertainment	76	713	HEICO Corp.	67.53	6.19	4	3	Aerospace/Defense	59
2581	ANSYS, Inc.	91.39	13.28	3	2	Computer Software	14	1733	Wabtec Corp.	80.81	6.17	4	3	Machinery	68
2163	Avis Budget Group	32.05	13.00	5	4	Retail (Hardlines)	61	1408	ScanSource	35.50	6.16	2	3	Computers/Peripherals	83
1977	Monster Beverage	146.72	12.79	3	3	Beverage	38	2180	Insight Enterprises	32.91	6.13	3	3	Retail (Hardlines)	61
2606	CACI Int'l	100.30	12.65	4	3	IT Services	64	194	Varian Medical Sys.	96.38	6.09	-	1	Med Supp Invasive	48
2371	Scientific Games	12.70	12.54	-	5	Hotel/Gaming	80	1224	Generac Holdings	36.62	6.03	3	3	Power	26
968	Express Scripts	70.31	12.45	4	3	Pharmacy Services	84	2007	DTS, Inc.	42.30	6.00	-	4	Entertainment Tech	44
2016	TiVo Corp.	19.65	11.58	-	3	Entertainment Tech	44	185	Intuitive Surgical	721.73	5.93	3	3	Med Supp Invasive	48
1632	Valeant Pharm. Int'l	22.07	11.49	3	5	Drug	45	588	CalAmp Corp.	13.23	5.87	3	4	Wireless Networking	77
726	TransDigm Group	282.08	11.48	4	3	Aerospace/Defense	59	134	Thermo Fisher Sci.	151.67	5.77	2	2	Precision Instrument	23
836	Myriad Genetics	19.91	11.33	3	3	Biotechnology	40	2602	ACI Worldwide	19.73	5.72	5	3	IT Services	64
1317	WESCO Int'l	58.10	11.11	2	3	Electrical Equipment	27	2598	Synopsys, Inc.	59.62	5.67	3	1	Computer Software	14
1615	Gilead Sciences	73.41	10.71	5	3	Drug	45	961	Synaptics	65.90	5.63	4	3	Telecom. Equipment	37
1613	Celgene Corp.	100.06	10.63	3	3	Drug	45	169	Wabash National	13.45	5.60	5	4	Heavy Truck & Equip	55
1388	Kulicicki & Soffa	12.93	10.49	3	3	Semiconductor Equip	67	131	PerkinElmer Inc.	52.49	5.59	4	3	Precision Instrument	23
2617	Manhattan Assoc.	59.01	9.91	4	3	IT Services	64	1323	Arrow Electronics	62.20	5.58	5	3	Electronics	56
948	F5 Networks	117.56	9.80	3	3	Telecom. Equipment	37	601	Zebra Techn. 'A'	65.36	5.53	4	3	Wireless Networking	77
2599	Teradata Corp.	29.50	9.48	2	3	Computer Software	14	2578	WEX Inc.	104.89	5.52	3	3	Financial Svcs. (Div.)	58
1354	CEVA, Inc.	30.85	9.29	2	4	Semiconductor	75	1999	Bridgepoint Education	6.76	5.47	2	4	Educational Services	25
2330	AMC Networks	49.26	9.19	5	3	Entertainment	76	1276	Boston Scientific	23.12	5.45	3	3	Med Supp Invasive	48
226	Schein (Henry)	153.35	9.06	3	3	Med Supp Non-Invasive	39	1263	Chicago Bridge & Iron	27.73	5.43	4	3	Engineering & Const	35
1010	Helen of Troy Ltd.	82.45	8.88	4	3	Toiletries/Cosmetics	21	2610	Cognizant Technology	50.22	5.43	4	2	IT Services	64
938	Vonage Holdings	6.25	8.74	5	4	Telecom. Services	71	2347	Sirius XM Holdings	4.10	5.41	4	4	Entertainment	76
1410	Tech Data	80.57	8.60	4	3	Computers/Peripherals	83	1356	Cirrus Logic	53.55	5.36	4	3	Semiconductor	75
1316	Universal Display	50.22	8.47	3	3	Electrical Equipment	27	2187	Nautlius Inc.	20.50	5.35	4	4	Retail (Hardlines)	61
1611	Biogen	295.05	8.24	4	3	Drug	45	1978	National Beverage	49.50	5.34	3	3	Beverage	38
1128	Lennox Corp.	41.91	8.16	5	3	Homebuilding	90	962	Verifone Systems	15.14	5.34	3	4	Telecom. Equipment	37
1645	Team Health Hldgs.	40.25	8.13	-	3	Human Resources	78	1359	Integrated Device	20.15	5.29	4	3	Semiconductor	75
2654	Fortress Investment	5.13	7.67	3	3	Public/Private Equity	1	951	Ixia	11.96	5.27	3	3	Telecom. Equipment	37
2584	Cadence Design Sys.	26.24	7.54	4	3	Computer Software	14	711	Esterline Technologies	73.00	5.26	2	3	Aerospace/Defense	59
1130	Meritage Homes	33.85	7.52	3	3	Homebuilding	90	1576	Silver Wheaton	24.08	5.20	1	3	Precious Metals	3
1350	Advanced Energy	46.83	7.51	4	3	Semiconductor	75	957	NeuStar Inc.	25.20	5.16	3	3	Telecom. Equipment	37
1315	Trimble Inc.	29.30	7.44	1	3	Electrical Equipment	27	568	Innospec Inc.	61.96	5.14	5	3	Chemical (Specialty)	62
2010	Electronic Arts	84.01	7.16	5	3	Entertainment Tech	44	1628	Perrigo Co. plc	88.24	5.11	4	3	Drug	45
2567	MasterCard Inc.	101.73	7.15	3	1	Financial Svcs. (Div.)	58	1643	On Assignment	36.55	5.08	4	3	Human Resources	78
192	SurModics, Inc.	28.50	7.08	2	3	Med Supp Invasive	48	414	Tetra Tech	37.35	5.08	2	3	Environmental	24
2593	PTC Inc.	46.13	6.91	2	3	Computer Software	14	417	Stericycle Inc.	74.85	5.06	3	2	Environmental	24

**BEST PERFORMING STOCKS**

(Measured by Price Change in the Last 13 Weeks)

Page No.	Stock Name	Ticker	Recent Price	Percent Change In Price	Time-liness	Safety Rank
804	Healthways Inc.	HWAY	25.92	117.3%	1	4
165	Navistar Int'l	NAV	22.36	88.7%	3	5
949	Hamonic, Inc.	HLIT	5.55	86.2%	-	3
1554	Genworth Fin'l	GNW	5.09	78.0%	2	5
562	Chemours Co. (The)	CC	15.86	74.3%	-	4
1007	Avon Products	AVP	6.62	68.0%	1	4
2167	Big 5 Sporting Goods	BGFV	16.55	64.2%	2	4
205	Cepheid	CPHD	52.82	62.8%	-	4
2220	Tilly's, Inc.	TLYS	9.29	58.0%	3	3
591	Finsisar Corp.	FNSR	29.00	56.6%	3	4
1592	Teck Resources Ltd. 'B'	TCKB.TO	27.10	55.1%	2	4
1003	Titan Int'l	TWI	10.25	54.4%	1	4
1973	Craft Brew Alliance	BREW	18.05	53.6%	2	4
1361	Intersil Corp. 'A'	ISIL	22.06	53.6%	-	3
1384	Amkor Technology	AMKR	9.39	52.2%	2	5
931	Sprint Corp.	S	6.86	51.8%	3	4
2007	DTS, Inc.	DTSI	42.30	50.7%	-	4
333	Golar LNG Ltd.	GLNG	23.62	50.6%	1	4
1589	Natural Resource	NRP	30.18	46.5%	-	5
525	Chesapeake Energy	CHK	6.52	44.9%	2	5
531	Encana Corp.	ECA	11.12	43.5%	3	5
178	CryoLife Inc.	CRY	17.00	42.0%	2	3
514	Petroleo Brasileiro ADR	PBR	11.77	39.0%	1	5
2636	Netflix, Inc.	NFLX	118.79	38.4%	3	3
307	Copa Holdings, S.A.	CPA	92.01	38.3%	3	3
593	InterDigital Inc.	IDCC	78.65	38.2%	4	3
2223	Zumiez Inc.	ZUMZ	21.80	38.2%	3	3
1411	Unisys Corp.	UIS	10.15	38.1%	3	5
2427	Nabors Inds.	NBR	13.14	37.9%	3	4
998	Meritor, Inc.	MTOR	10.56	37.7%	5	5
2023	Endurance Specialty	ENH	91.88	37.2%	-	2
592	Infoblox Inc.	BLOX	26.35	36.2%	-	4
570	Kronos Worldwide	KRO	7.70	35.8%	2	4
2386	A.H. Belo	AHC	7.15	35.7%	-	4
2424	Helix Energy Solutions	HLX	9.53	35.6%	2	4
521	Western Refining	WNR	28.07	35.2%	4	3
1378	STMicroelectronics	STM	8.26	35.0%	3	3
1824	Rackspace Hosting	RAX	31.79	34.9%	-	3
208	Cutera, Inc.	CUTR	14.45	34.2%	3	3
2633	Groupon, Inc.	GRPN	5.07	33.8%	3	5
572	Methanex Corp.	MEOH	37.80	33.1%	1	3

**WORST PERFORMING STOCKS**

(Measured by Price Change in the Last 13 Weeks)

Page No.	Stock Name	Ticker	Recent Price	Percent Change In Price	Time-liness	Safety Rank
1760	LSB Inds.	LXU	6.22	-52.4%	1	5
1231	SunPower Corp.	SPWR	8.54	-44.7%	1	4
2104	G-III Apparel Group	GIII	27.94	-44.4%	4	3
2142	Fred's Inc.	FRED	8.83	-44.3%	2	3
1417	Essendant Inc.	ESND	18.27	-42.9%	2	3
826	Alnylam Pharmac.	ALNY	38.07	-40.5%	2	4
1597	CVR Partners, LP	UAN	4.86	-39.6%	2	3
1334	Integer Holdings	ITGR	19.54	-39.1%	3	3
2438	Tidewater Inc.	TDW	2.97	-36.8%	-	5
2202	Ascena Retail Group	ASNA	5.00	-36.5%	3	3
836	Myriad Genetics	MYGN	19.91	-36.2%	3	3
930	Shenandoah Telecom.	SHEN	26.55	-36.2%	3	3
727	Triumph Group	TGI	24.25	-36.0%	3	3
1324	Avigilon Corp.	AVO.TO	8.34	-35.1%	4	3
1579	Yamana Gold	AUY	3.79	-35.1%	2	5
821	Computer Prog. & Sys.	CPSI	26.21			



**WIDEST DISCOUNTS FROM BOOK VALUE**  
**Stocks whose ratios of recent price to book value are lowest**

Page No.	Stock Name	Ticker	Recent Price	Book Value Per sh.*	Percent Price-to-Book Value	Time-liness	Safety Rank	Beta	P/E Ratio	Est'd Yield	Industry Group	Industry Rank
2438	Tidewater Inc.	TDW	2.97	48.86	6%	-	5	1.40	NMF	NIL	Oilfield Svcs/Equip.	5
2435	Seadrill Ltd.	SDRL	2.32	19.02	12%	3	5	1.75	2.8	NIL	Oilfield Svcs/Equip.	5
337	Teekay Corp.	TK	7.92	50.90	16%	4	5	1.70	24.0	2.8	Maritime	53
330	Diana Shipping	DSX	2.50	14.76	17%	-	4	1.45	NMF	NIL	Maritime	53
1554	Genworth Fin'l	GNW	5.09	29.43	17%	2	5	1.95	5.9	NIL	Insurance (Life)	22
2429	Noble Corp. plc	NE	5.77	27.69	21%	2	4	1.60	NMF	1.4	Oilfield Svcs/Equip.	5
2439	Transocean Ltd.	RIG	9.90	39.83	25%	3	5	1.50	NMF	NIL	Oilfield Svcs/Equip.	5
306	Bristow Group	BRS	11.59	42.86	27%	1	4	1.30	NMF	2.4	Air Transport	92
799	Community Health	CYH	10.53	35.64	30%	-	4	1.35	7.4	NIL	Medical Services	70
2421	Enesco plc	ESV	8.47	27.67	31%	2	4	1.45	9.8	0.5	Oilfield Svcs/Equip.	5
2217	Stage Stores	SSI	5.16	16.00	32%	-	4	1.45	19.1	11.6	Retail (Softlines)	63
2414	Whiting Petroleum	WLL	8.36	23.27	36%	2	5	2.10	NMF	NIL	Petroleum (Producing)	9
2433	Rowan Cos. plc	RDC	14.09	38.24	37%	3	3	1.35	9.0	NIL	Oilfield Svcs/Equip.	5
2417	CARBO Ceramics	CRR	10.56	27.59	38%	1	4	1.45	NMF	NIL	Oilfield Svcs/Equip.	5
1760	LSB Inds.	LXU	6.22	16.39	38%	1	5	1.65	NMF	NIL	Diversified Co.	36
740	ArcelorMittal	MT	6.36	15.25	42%	1	4	1.70	13.3	NIL	Steel	7
979	China Auto. Sys.	CAAS	3.90	9.31	42%	-	4	1.40	5.5	NIL	Auto Parts	93
946	Comtech Telecom.	CMTL	10.88	24.88	44%	1	4	1.20	NMF	11.0	Telecom. Equipment	37
2170	Conn's, Inc.	CONN	8.98	17.57	51%	2	4	1.55	NMF	NIL	Retail (Hardlines)	61
2409	Marathon Oil Corp.	MRO	14.20	27.40	52%	2	3	1.70	NMF	1.4	Petroleum (Producing)	9
1636	CDI Corp.	CDI	6.06	11.23	54%	-	4	1.20	NMF	NIL	Human Resources	78
2419	Diamond Offshore	DO	16.97	29.99	57%	3	3	1.15	22.3	NIL	Oilfield Svcs/Equip.	5
1123	Beazer Homes USA	BZH	11.29	19.30	58%	4	5	2.10	19.5	NIL	Homebuilding	90
2411	Oasis Petroleum	OAS	10.57	16.68	63%	3	5	2.05	NMF	NIL	Petroleum (Producing)	9
2397	Monster Worldwide	MWW	3.46	5.39	64%	-	5	1.50	18.2	NIL	Advertising	66
2108	Iconix Brand Group	ICON	7.89	12.17	65%	3	4	1.25	8.8	NIL	Apparel	86
927	Iridium Communications	IRDM	8.40	12.92	65%	3	4	0.90	9.3	NIL	Telecom. Services	71
1761	Leucadia National	LUK	18.96	29.03	65%	1	3	1.35	37.2	1.3	Diversified Co.	36
2394	Harte-Hanks	HHS	1.52	2.29	66%	-	5	1.05	15.2	NIL	Advertising	66
2021	Assured Guaranty	AGO	29.66	43.96	67%	3	3	1.50	10.1	1.9	Reinsurance	33
2544	CIT Group	CIT	36.62	54.61	67%	4	3	1.20	11.2	1.6	Financial Svcs. (Div.)	58
1568	Eldorado Gold	EGO	3.61	5.24	69%	1	4	1.25	45.1	NIL	Precious Metals	3
2013	SeaChange Int'l	SEAC	2.66	3.88	69%	-	4	0.80	NMF	NIL	Entertainment Tech	44
2197	West Marine	WMAR	8.37	12.11	69%	3	3	1.00	44.1	NIL	Retail (Hardlines)	61
1334	Integer Holdings	ITGR	19.54	27.80	70%	3	3	1.10	6.8	NIL	Electronics	56
305	Atlas Air Worldwide	AAWW	42.00	59.02	71%	1	3	1.40	11.3	NIL	Air Transport	92
2510	Citigroup Inc.	C	48.99	69.46	71%	3	3	1.50	10.3	1.3	Bank	51
933	Telephone & Data	TDS	26.97	37.86	71%	3	3	1.20	62.7	2.2	Telecom. Services	71
2504	Bank of America	BAC	16.26	22.54	72%	3	3	1.45	11.5	1.9	Bank	51
1222	First Solar, Inc.	FSLR	39.57	54.52	73%	3	3	1.55	15.3	NIL	Power	26
216	Invacare Corp.	IVC	10.35	14.21	73%	2	4	1.25	NMF	0.5	Med Supp Non-Invasive	39
1614	Endo Int'l plc	ENDP	19.85	26.87	74%	3	3	0.90	4.2	NIL	Drug	45
1556	Manulife Fin'l	MFC	14.68	19.90	74%	3	3	1.35	10.8	3.9	Insurance (Life)	22
1579	Yamana Gold	AUY	3.79	5.11	74%	2	5	1.15	25.3	0.5	Precious Metals	3
1585	Cameco Corp.	CCO.TO	10.50	14.01	75%	2	3	1.20	11.8	3.8	Metals & Mining (Div.)	2
506	Hess Corp.	HES	50.98	67.77	75%	2	3	1.55	NMF	2.0	Petroleum (Integrated)	18
1626	PDL BioPharma	PDLI	3.19	4.24	75%	3	5	0.95	15.2	NIL	Drug	45
2025	Greenlight Capital Re	GLRE	20.48	26.82	76%	1	3	0.90	23.5	NIL	Reinsurance	33
617	Energy Transfer	ETP	36.44	47.44	77%	2	3	1.10	24.6	11.6	Pipeline MLPs	6
538	QEP Resources	QEP	17.30	22.33	77%	3	4	1.60	NMF	NIL	Natural Gas (Div.)	13
1231	SunPower Corp.	SPWR	8.54	11.11	77%	1	4	1.90	NMF	NIL	Power	26
2407	Denbury Resources	DNR	2.77	3.55	78%	2	5	2.00	NMF	NIL	Petroleum (Producing)	9
1557	MetLife Inc.	MET	46.80	59.97	78%	2	3	1.40	9.7	3.6	Insurance (Life)	22
2521	Popular Inc.	BPOP	37.86	48.79	78%	5	4	1.45	11.0	1.6	Bank	51
122	Geospace Technologies	GEOS	17.46	22.03	79%	1	4	1.60	NMF	NIL	Precision Instrument	23
2424	Helix Energy Solutions	HLX	9.53	12.03	79%	2	4	1.95	NMF	NIL	Oilfield Svcs/Equip.	5
1640	Kelly Services 'A'	KELYA	18.72	23.57	79%	3	3	1.20	13.8	1.6	Human Resources	78
937	Vodafone Group ADR	VOD	28.15	35.72	79%	3	3	1.15	33.1	4.6	Telecom. Services	71
2200	Abercrombie & Fitch	ANF	15.39	19.17	80%	3	3	1.30	22.3	5.4	Retail (Softlines)	63
1998	Apollo Education Group	APOL	8.46	10.61	80%	-	3	1.10	26.4	NIL	Educational Services	25
2515	HSBC Holdings PLC	HSBC	38.33	47.87	80%	1	3	1.10	10.0	5.2	Bank	51
2563	Legg Mason	LM	31.70	39.58	80%	1	3	1.40	13.3	2.8	Financial Svcs. (Div.)	58
2537	Amer. Int'l Group	AIG	60.49	75.10	81%	3	3	1.15	12.7	2.1	Financial Svcs. (Div.)	58
2652	Apollo Investment	AINV	5.89	7.28	81%	2	3	0.95	29.5	10.2	Public/Private Equity	1
2142	Fred's Inc.	FRED	8.83	10.86	81%	2	3	1.05	NMF	2.7	Retail Store	57
761	CNA Fin'l	CNA	35.71	43.50	82%	1	2	0.95	11.9	2.8	Insurance (Prop/Cas.)	46
331	Frontline Ltd.	FRO	7.56	9.25	82%	3	5	1.70	7.2	10.6	Maritime	53
507	HollyFrontier Corp.	HFC	23.80	29.15	82%	2	3	1.25	16.6	5.7	Petroleum (Integrated)	18
576	Platform Specialty	PAH	7.49	9.17	82%	3	4	2.00	10.9	NIL	Chemical (Specialty)	62
108	Nissan Motor ADR	NSANY	19.22	23.11	83%	3	3	1.05	7.7	4.2	Automotive	60
2522	Regions Financial	RF	10.25	12.35	83%	3	3	1.40	12.2	2.6	Bank	51
2351	Tribune Media Co.	TRCO	34.24	41.43	83%	3	3	1.20	16.1	2.9	Entertainment	76
2428	National Oilwell Varco	NOV	36.66	43.60	84%	1	3	1.25	NMF	0.5	Oilfield Svcs/Equip.	5
1582	Allegheny Techn.	ATI	16.92	20.01	85%	1	4	1.85	NMF	1.9	Metals & Mining (Div.)	2
2650	Amer. Capital, Ltd.	ACAS	16.91	19.88	85%	-	4	1.15	10.6	NIL	Public/Private Equity	1
2564	Loews Corp.	L	41.29	48.45	85%	1	2	0.95	14.9	0.6	Financial Svcs. (Div.)	58
1512	Annaly Capital Mgmt.	NLY	10.10	11.73	86%	2	3	0.60	8.6	11.9	R.E.I.T.	50
319	ArcBest Corp.	ARCB	19.50	22.77	86%	4	3	1.60	18.9	1.6	Trucking	94
2545	Capital One Fin'l	COF	71.99	83.28	86%	3	3	1.15	10.2	2.2	Financial Svcs. (Div.)	58
2427	Nabors Inds.	NBR	13.14	15.23	86%	3	4	1.85	NMF	1.8	Oilfield Svcs/Equip.	5
935	U.S. Cellular	USM	36.42	42.21	86%	3	3	1.05	45.0	NIL	Telecom. Services	71
2550	EZCORP. Inc.	EZPW	10.89	12.55	87%	-	4	1.40	NMF	NIL	Financial Svcs. (Div.)	58
1127	KB Home	KBH	15.93	18.32	87%	3	4	1.75	11.1	0.6	Homebuilding	90
1555	Lincoln Nat'l Corp.	LNC	48.82	55.84	87%	3	3	1.55	7.7	2.3	Insurance (Life)	22
1762	McDermott Int'l	MDR	5.39	6.22	87%	3	5	1.80	NMF	NIL	Diversified Co.	36
1602	Mosaic Company	MOS	23.39	27.04	87%	2	3	1.35	37.7	5.3	Chemical (Basic)	4
1807	Piper Jaffray Cos.	PJC	51.00	58.87	87%	3	3	1.30	14.2	NIL	Investment Banking	10
773	XL Group Ltd.	XL	34.40	39.62	87%	3	3	0.95	13.6	2.3	Insurance (Prop/Cas.)	46
2011	Glu Mobile	GLUU	2.06	2.33	88%	-	5	1.40	NMF	NIL	Entertainment Tech	44
107	Honda Motor ADR	HMC	29.52	33.38	88%	2	3	1.05	14.1	2.8	Automotive	60
1986	Kyocera Corp. ADR	KYO	48.57	55.40	88%	3	2	1.00	22.1	1.8	Foreign Electronics	52
2534	Aircastle Ltd.	AYR	19.72	22.11	89%	3	3	1.20	10.2	4.9	Financial Svcs. (Div.)	58
1163	Domtar Corp.	UFS	37.47	42.20	89%	2	3	1.15	11.7	4.4	Paper/Forest Products	42
1344	Stratasys Ltd.	SSYS	20.39	22.83	89%	2	3	1.35	NMF	NIL	Electronics	56
1559	Prudential Fin'l	PRU	84.37	93.69	90%	3	3	1.35	9.5	3.3	Insurance (Life)	22
1422	Staples, Inc.	SPLS	7.50	8.33	90%	2	3	1.05	8.3	6.4	Office Equip/Supplies	20
1586	CONSOL Energy	CNX	18.63	20.53	91%	2	4	1.50	NMF	NIL	Metals & Mining (Div.)	2
1597	CVR Partners, LP	UAN	4.66	5.27	92%	-	3	1.15	NMF	14.0	Chemical (Basic)	4
1502	Astoria Financial	AF	14.23	15.23	93%	-	3	1.10	24.5	1.1	Thrift	29
2325	Speedway Motorsports	TRK	17.66	19.03	93%	2	3	0.90	13.3	3.4	Recreation	85

\*If fiscal 2016 Book Value not available, estimate used.

LOWEST P/E's

Stocks with the lowest estimated current P/E ratios

Page No.	Stock Name	Recent Price	Current P/E Ratio	Time-liness	Safety Rank	Industry Group	Industry Rank	Page No.	Stock Name	Recent Price	Current P/E Ratio	Time-liness	Safety Rank	Industry Group	Industry Rank
2432	Seadrill Ltd.	2.32	2.8	3	5	Oilfield Svcs/Equip.	5	1420	Office Depot	3.25	8.3	4	4	Office Equip/Supplies	20
1635	Valeant Pharm. Int'l	22.07	3.1	3	5	Drug	45	1422	Staples, Inc.	7.50	8.3	2	3	Office Equip/Supplies	20
104	Fiat Chrysler	6.27	3.3	-	3	Automotive	60	2165	Bed Bath & Beyond	40.24	8.4	3	2	Retail (Hardlines)	61
1589	Natural Resource	30.18	4.0	-	5	Metals & Mining (Div.)	2	513	PBF Energy	21.07	8.4	3	3	Petroleum (Integrated)	18
1614	Endo Int'l plc	19.85	4.2	3	3	Drug	45	2353	Viacom Inc. 'B'	36.14	8.4	2	3	Entertainment	76
2656	KKR & Co. L.P.	13.72	4.4	1	3	Public/Private Equity	1	2449	Huntsman Corp.	15.78	8.5	3	4	Chemical (Diversified)	88
2654	Fortress Investment	5.13	5.2	3	3	Public/Private Equity	1	2383	Time Inc.	13.30	8.5	-	3	Publishing	54
106	General Motors	31.40	5.3	4	3	Automotive	60	1234	AECOM	27.94	8.6	3	3	Engineering & Const	35
976	Amer. Axle	17.47	5.4	4	4	Auto Parts	93	1512	Annaly Capital Mgmt.	10.10	8.6	2	3	R.E.I.T.	50
727	Triumph Group	24.25	5.4	3	3	Aerospace/Defense	59	343	GATX Corp.	44.08	8.7	3	3	Railroad	91
979	China Auto. Sys.	3.90	5.5	-	4	Auto Parts	93	345	Greenbrier (The) Cos.	35.55	8.7	5	4	Railroad	91
1236	Chicago Bridge & Iron	27.73	5.9	4	3	Engineering & Const	35	1400	Hewlett Packard Ent.	21.47	8.7	-	3	Computers/Peripherals	83
1554	Genworth Fin'l	5.09	5.9	2	5	Insurance (Life)	22	1552	AEGON	4.15	8.8	1	3	Insurance (Life)	22
2175	GameStop Corp.	24.82	6.1	3	3	Retail (Hardlines)	61	757	AmTrust Financial Svcs.	27.33	8.8	3	3	Insurance (Prop/Cas.)	46
2028	Third Point Reinsurance	12.35	6.2	1	3	Reinsurance	33	2120	Asbury Automotive	54.70	8.8	4	3	Retail Automotive	95
2174	GNC Holdings	19.40	6.4	3	3	Retail (Hardlines)	61	1124	CalAtlantic Group	32.29	8.8	3	3	Homebuilding	90
996	Linamar Corp.	52.60	6.4	4	3	Auto Parts	93	988	Federal-Mogul Hldgs.	9.20	8.8	-	4	Auto Parts	93
998	Meritor, Inc.	10.56	6.6	5	5	Auto Parts	93	2108	Iconix Brand Group	7.89	8.8	3	4	Apparel	86
2651	Apollo Global Mgmt	17.61	6.7	2	3	Public/Private Equity	1	2131	Sonic Automotive	18.95	8.8	4	3	Retail Automotive	95
308	Delta Air Lines	39.46	6.7	5	3	Air Transport	92	1002	Tenneco Inc.	53.36	8.8	5	4	Auto Parts	93
105	Ford Motor	11.89	6.7	3	3	Automotive	60	981	Cooper Tire & Rubber	35.98	8.9	4	3	Auto Parts	93
1615	Gilead Sciences	73.41	6.7	5	3	Drug	45	2340	MSG Networks	18.65	8.9	-	3	Entertainment	76
1334	Integer Holdings	19.54	6.8	3	3	Electronics	56	841	United Therapeutics	116.97	8.9	4	3	Biotechnology	40
2565	MGIC Investment	8.44	6.9	5	5	Financial Svcs. (Div.)	58	2433	Rowan Cos. plc	14.09	9.0	3	3	Oilfield Svcs/Equip.	5
315	United Cont'l Hldgs.	53.68	7.1	5	4	Air Transport	92	1134	TRT Pointe Group	12.71	9.0	4	3	Homebuilding	90
331	Frontline Ltd.	7.56	7.2	3	5	Maritime	52	518	Tesoro Corp.	81.44	9.0	5	3	Petroleum (Integrated)	18
304	American Airlines	39.35	7.3	4	3	Air Transport	93	1791	BGC Partners	8.85	9.1	3	3	Brokers & Exchanges	47
102	Daimler AG	70.80	7.3	3	3	Automotive	60	2001	DeVry Education Group	22.23	9.1	2	3	Educational Services	25
2568	Navient Corp.	13.61	7.3	-	3	Financial Svcs. (Div.)	58	1957	SUPERVALU INC.	5.02	9.1	-	5	Retail/Wholesale Food	79
1181	Owens-Illinois	17.37	7.3	2	3	Packaging & Container	82	1323	Arrow Electronics	62.20	9.2	5	3	Electronics	56
789	Community Health	10.53	7.4	-	4	Medical Services	70	2163	Avis Budget Group	32.05	9.2	5	4	Retail (Hardlines)	61
992	Goodyear Tire	31.11	7.5	5	3	Auto Parts	93	317	WestJet Airlines Ltd.	23.13	9.2	4	3	Air Transport	92
997	Magna Int'l 'A'	40.12	7.5	4	3	Auto Parts	93	2447	Eastman Chemical	65.35	9.3	4	3	Chemical (Diversified)	88
2026	Maiden Hldgs. Ltd.	13.80	7.6	3	3	Reinsurance	33	927	Iridium Communications	8.40	9.3	3	4	Telecom. Services	71
169	Wabash National	13.45	7.6	5	4	Heavy Truck & Equip	55	2113	Perry Ellis Int'l	18.95	9.3	3	4	Apparel	86
983	Dana Inc.	14.29	7.7	4	3	Auto Parts	93	2203	Buckle (The), Inc.	21.30	9.4	2	3	Retail (Softlines)	63
1555	Lincoln Nat'l Corp.	48.82	7.7	3	3	Insurance (Life)	22	1130	Meritage Homes	33.85	9.4	3	3	Homebuilding	90
108	Nissan Motor ADR	19.22	7.7	3	3	Automotive	60	1421	Pitney Bowes	17.22	9.4	2	3	Office Equip/Supplies	20
2148	Rent-A-Center	9.26	7.9	2	3	Retail Store	57	2452	Trinseo S.A.	55.95	9.4	-	3	Chemical (Diversified)	88
2346	Sinclair Broadcast	26.50	7.9	4	4	Entertainment	76	1562	Unum Group	36.55	9.4	3	3	Insurance (Life)	22
2330	AMC Networks	49.26	8.0	5	3	Entertainment	76	600	West Corp.	21.22	9.4	3	3	Wireless Networking	77
2125	Group 1 Automotive	61.61	8.0	5	3	Retail Automotive	95	2548	Discover Fin'l Svcs.	54.81	9.5	3	3	Financial Svcs. (Div.)	58
1631	Teva Pharm. ADR	43.26	8.0	3	2	Drug	45	1559	Prudential Fin'l	84.37	9.5	3	3	Insurance (Life)	22
1583	Alliance Resource	23.55	8.1	3	3	Metals & Mining (Div.)	2	2219	Tailored Brands	15.81	9.5	3	4	Retail (Softlines)	63
1417	Essendant Inc.	18.27	8.1	2	3	Office Equip/Supplies	20	962	Verifone Systems	15.14	9.5	3	4	Telecom. Equipment	37
311	JetBlue Airways	17.78	8.2	4	3	Air Transport	92	2196	Weight Watchers	10.18	9.5	1	5	Retail (Hardlines)	61
571	LyondellBasell Inds.	80.18	8.2	5	3	Chemical (Specialty)	62	1732	United Rentals	76.44	9.6	5	4	Machinery	68
957	NeuStar Inc.	25.20	8.2	3	3	Telecom. Equipment	37	941	Arris Int'l plc	28.90	9.7	4	3	Telecom. Equipment	37
1126	Hovnanian Enterpr. 'A'	1.58	8.3	-	5	Homebuilding	90	2655	Gladstone Capital	8.60	9.7	2	3	Public/Private Equity	1
995	Lear Corp.	112.84	8.3	5	3	Auto Parts	93	1803	Goldman Sachs	172.63	9.7	2	2	Investment Banking	10

HIGHEST P/E'S

Stocks with the highest estimated current P/E ratios

Page No.	Stock Name	Recent Price	Current P/E Ratio	Time-liness	Safety Rank	Industry Group	Industry Rank	Page No.	Stock Name	Recent Price	Current P/E Ratio	Time-liness	Safety Rank	Industry Group	Industry Rank
222	Omniceil, Inc.	35.65	99.0	2	3	Med Supp Non-Invasive	39	188	NuVasive, Inc.	67.65	52.9	3	3	Med Supp Invasive	48
2016	TiVo Corp.	19.65	89.3	-	3	Entertainment Tech	44	1520	Duke Realty Corp.	25.88	52.8	4	3	R.E.I.T.	50
588	CalAmp Corp.	13.23	88.2	3	4	Wireless Networking	77	1900	Primo Water Corp.	14.15	52.4	3	4	Beverage	38
1565	Agnico Eagle Mines	48.01	87.3	2	3	Precious Metals	3	372	Ruby Tuesday	3.10	51.7	-	4	Restaurant	87
332	GasLog Ltd.	16.55	87.1	2	4	Maritime	53	2580	Adobe Systems	108.42	51.6	2	3	Computer Software	14
1014	Regis Corp.	12.07	86.2	1	3	Toiletries/Cosmetics	21	1518	DDR Corp.	16.37	51.2	3	3	R.E.I.T.	50
2305	Carmike Cinemas	32.80	82.0	-	4	Recreation	85	1820	Mercadolibre Inc.	167.51	51.2	3	3	E-Commerce	65
1526	Forest City Realty	21.59	80.0	-	4	R.E.I.T.	50	523	Antero Resources Corp.	27.44	50.8	2	4	Natural Gas (Div.)	13
2336	Global Eagle Entertain.	8.33	75.7	2	4	Entertainment	76	455	TransUnion	32.93	50.7	-	3	Information Services	74
1519	Digital Realty Trust	96.57	75.4	2	3	R.E.I.T.	50	2631	Expedia Inc.	122.83	49.9	3	3	Internet	32
1215	AES Corp.	11.87	74.2	2	3	Power	26	1376	Silicon Labs.	58.40	49.9	1	4	Semiconductor	75
2434	Schlumberger Ltd.	81.39	74.0	1	2	Oilfield Svcs/Equip.	5	1354	CEVA, Inc.	30.85	49.8	2	3	Semiconductor	75
504	Chevron Corp.	101.79	73.2	2	1	Petroleum (Integrated)	18	1570	Goldcorp Inc.	14.86	49.5	2	3	Precious Metals	3
1030	Consol. Communic.	24.66	72.5	3	3	Telecom. Utility	30	823	Qualys Systems	12.27	49.1	2	3	Healthcare Information	11
1373	Qorvo Inc.	53.59	71.5	-	3	Semiconductor	75	514	Petroleo Brasileiro ADR	11.77	49.0	1	5	Petroleum (Integrated)	18
163	Joy Global	27.81	71.3	-	4	Heavy Truck & Equip	55	1023	Liberty Global plc	31.24	48.1	3	3	Cable TV	73
1522	Essex Property Trust	207.70	70.9	3	3	R.E.I.T.	50	443	CoStar Group	209.75	47.5	3	3	Information Services	74
1569	Franco-Nevada Corp.	66.03	69.5	3	3	Precious Metals	3	1316	Universal Display	50.22	47.4	3	3	Electrical Equipment	27
2015	Take-Two Interactive	45.09	69.4	4	3	Entertainment Tech	44	1315	Trimble Inc.	29.30	47.3	1	3	Electrical Equipment	27
1577	Stellwater Mining	12.45	69.2	2	4	Precious Metals	3	1548	Washington R.E.I.T.	30.25	47.3	3	3	R.E.I.T.	50
400	Macquarie Infrastructure	83.20	68.2	3	3	Industrial Services	69	1575	Royal Gold	68.87	47.2	1	3	Precious Metals	3
2309	ClubCorp Hldgs.	12.13	67.4	3	3	Recreation	85	2354	World Wrestling Ent.	19.82	47.2	3	4	Entertainment	76
502	BP PLC ADR	35.98	66.6	3	3	Petroleum (Integrated)	18	1540	Realty Income Corp.	62.66	47.1	2	2	R.E.I.T.	50
449	IHS Markit	37.30	66.6	-	3	Information Services	74	1515	Boston Properties	127.18	46.8	3	3	R.E.I.T.	50
2638	Overstock.com	14.85	64.6	3	4	Internet	32	357	Chipotle Mex. Grill	393.96	46.7	3	3	Restaurant	87
589	Crown Castle Int'l	91.82	63.8	3	3	Wireless Networking	77	214	IDEXX Labs.	112.57	46.7	4	3	Med Supp Non-Invasive	39
2593	PTC Inc.	46.13	63.2	2	3	Computer Software	73	1524	Federal Rty. Inv. Trust	147.10	46.4	2	2	R.E.I.T.	50
1018	Charter Commun.	259.95	62.9	3	3	Cable TV	73	1973	Craft Brew Alliance	18.05	46.3	2	4	Beverage	38
2115	Under Armour	38.30	62.												



**STOCKS WITH HIGHEST ANNUAL TOTAL RETURNS (NEXT 3 TO 5 YEARS)**  
(Estimated compound annual stock price appreciation plus estimated annual dividend income.)

Page No.	Stock Name	Recent Price	Est'd Total Return	Time-liness	Safety Rank	Industry Group	Industry Rank	Page No.	Stock Name	Recent Price	Est'd Total Return	Time-liness	Safety Rank	Industry Group	Industry Rank
1126	Hovnanian Enterpr. 'A'	1.58	50%	-	5	Homebuilding	90	231	Frontline Ltd.	7.56	28%	3	5	Maritime	53
2435	Seadrill Ltd.	2.32	49%	3	5	Oilfield Svcs/Equip.	5	2181	Liberty Interactive	18.78	28%	4	3	Retail (Hardlines)	61
2438	Tidewater Inc.	2.97	49%	-	5	Oilfield Svcs/Equip.	5	2565	MGIC Investment	8.44	28%	5	5	Financial Svcs. (Div.)	58
1632	Valeant Pharm. Int'l	22.07	48%	3	5	Drug	45	1365	Mellanox Technologies	41.50	28%	3	4	Semiconductor	75
2202	Ascena Retail Group	5.00	44%	3	3	Retail (Softlines)	63	572	Methanex Corp.	37.80	28%	1	3	Chemical (Specialty)	62
1597	CVR Partners, LP	4.86	43%	2	3	Chemical (Basic)	4	1621	Mylan N.V.	37.39	28%	3	3	Drug	45
372	Ruby Tuesday	3.10	43%	-	4	Restaurant	87	957	NeuStar Inc.	25.20	28%	3	3	Telecom. Equipment	37
840	Senomyx, Inc.	2.72	42%	-	5	Biotechnology	40	1625	Opko Health	9.40	28%	3	3	Drug	45
1231	SunPower Corp.	8.54	42%	1	4	Power	26	2190	Pier 1 Imports	4.40	28%	3	4	Retail (Hardlines)	61
337	Teekay Corp.	7.92	41%	4	5	Maritime	53	2150	Stein Mart	6.09	28%	3	3	Retail Store	57
813	Tenet Healthcare	23.68	41%	4	4	Medical Services	70	2437	TETRA Technologies	5.96	28%	2	4	Oilfield Svcs/Equip.	5
2417	CARBO Ceramics	10.56	40%	1	4	Oilfield Svcs/Equip.	5	352	Bloomin' Brands	17.18	27%	3	3	Restaurant	87
1324	Avigilon Corp.	8.34	38%	4	3	Electronics	56	799	Community Health	10.53	27%	-	4	Medical Services	70
2394	Harte-Hanks	1.52	38%	-	5	Advertising	66	2586	FireEye Inc.	12.53	27%	1	4	Computer Software	14
1760	LSB Inds.	6.22	38%	1	5	Diversified Co.	36	1222	First Solar, Inc.	39.57	27%	3	3	Power	26
2654	Fortress Investment	5.13	37%	3	3	Public/Private Equity	1	2387	Gannett Co.	10.64	27%	-	3	Newspaper	-
351	BJ's Restaurants	35.42	36%	4	3	Restaurant	87	2185	Movado Group	22.10	27%	3	3	Retail (Hardlines)	61
801	Envision Healthcare	21.83	36%	-	3	Medical Services	70	2196	Weight Watchers	10.18	27%	1	5	Retail (Hardlines)	61
2429	Noble Corp. plc	5.77	36%	2	4	Oilfield Svcs/Equip.	5	1585	Cameco Corp.	10.50	26%	2	3	Metals & Mining (Div.)	2
2440	Weatherford Int'l plc	5.91	36%	1	4	Oilfield Svcs/Equip.	5	1358	Cypress Semic.	10.61	26%	3	3	Semiconductor	75
1330	Fitbit Inc.	13.54	35%	-	4	Electronics	56	2008	Daktronics Inc.	8.60	26%	1	3	Entertainment Tech	44
1626	PDL BioPharma	3.19	35%	3	5	Drug	45	947	Ericsson ADR	5.47	26%	1	3	Telecom. Equipment	37
2572	SLM Corporation	7.25	35%	-	4	Financial Svcs. (Div.)	58	988	Federal-Mogul Hldgs.	9.20	26%	-	4	Auto Parts	93
946	Comtech Telecom.	10.88	34%	1	4	Telecom. Equipment	37	1804	Greenhill & Co.	22.95	26%	1	3	Investment Banking	10
1587	Freep't-McMoRan Inc.	9.72	34%	1	4	Metals & Mining (Div.)	2	2363	La Quinta Hldgs.	10.91	26%	-	3	Hotel/Gaming	80
2219	Tailored Brands	15.81	34%	3	4	Retail (Softlines)	63	1768	Realogy Holdings	24.37	26%	3	3	Diversified Co.	36
2347	Sirius XM Holdings	4.10	33%	4	4	Entertainment	76	2149	Sears Holdings	10.99	26%	3	5	Retail Store	57
2200	Abercrombie & Fitch	15.39	32%	3	3	Retail (Softlines)	63	2383	Time Inc.	13.30	26%	-	3	Publishing	54
1796	Investment Techn.	16.08	32%	2	3	Brokers & Exchanges	47	588	CalAmp Corp.	13.23	25%	3	4	Wireless Networking	77
2433	Rowan Cos. plc	14.09	32%	3	3	Oilfield Svcs/Equip.	5	1786	Consolidated Water	10.89	25%	2	3	Water Utility	43
2217	Stage Stores	5.16	32%	-	4	Retail (Softlines)	63	1397	Cray Inc.	21.33	25%	4	4	Computers/Peripherals	83
2353	Viacom Inc. 'B'	36.14	32%	2	3	Entertainment	76	2155	Cross, Inc.	8.08	25%	1	4	Shoe	81
2330	AMC Networks	49.26	31%	5	3	Entertainment	76	2173	Fossil Group	28.02	25%	2	3	Retail (Hardlines)	61
2653	Blackstone Group LP	23.61	31%	1	3	Public/Private Equity	1	2104	G-Hill Apparel Group	27.94	25%	4	3	Apparel	86
1236	Chicago Bridge & Iron	27.73	31%	4	3	Engineering & Const	35	1570	Goldcorp Inc.	14.86	25%	2	3	Precious Metals	3
1334	Integer Holdings	19.54	31%	3	3	Electronics	56	2106	Guess Inc.	13.72	25%	2	3	Apparel	86
2656	KKR & Co. L.P.	13.72	31%	1	3	Public/Private Equity	1	1311	Harman Int'l	79.79	25%	3	3	Electrical Equipment	27
597	Sierra Wireless	13.45	31%	4	4	Wireless Networking	77	2312	IMAX Corp.	30.14	25%	3	3	Recreation	85
990	Gentherm Inc.	28.10	30%	4	3	Auto Parts	93	1641	Korn/Ferry Int'l	20.92	25%	4	3	Human Resources	78
2563	Legg Mason	31.70	30%	1	3	Financial Svcs. (Div.)	58	2338	Lions Gate Entertain.	18.72	25%	3	3	Entertainment	76
513	PBF Energy	21.07	30%	3	3	Petroleum (Integrated)	18	997	Magna Int'l 'A'	40.12	25%	4	3	Auto Parts	93
370	Red Robin Gourmet	42.65	30%	4	3	Restaurant	87	1806	Morgan Stanley	32.32	25%	3	3	Investment Banking	10
2148	Rent-A-Center	9.26	30%	2	3	Retail Store	57	2316	Norwegian Cruise Line	38.25	25%	4	3	Recreation	85
1614	Endo Int'l plc	19.85	29%	3	3	Drug	45	1181	Owens-Illinois	17.37	25%	2	3	Packaging & Container	82
2175	GameStop Corp.	24.82	29%	3	3	Retail (Hardlines)	61	2369	Penn Nat'l Gaming	13.27	25%	4	3	Hotel/Gaming	80
576	Platform Specialty	7.49	29%	3	4	Chemical (Specialty)	62	841	United Therapeutics	116.97	25%	4	3	Biotechnology	40
962	Verifone Systems	15.14	29%	3	4	Telecom. Equipment	37	521	Western Refining	28.07	25%	4	3	Petroleum (Integrated)	18
979	China Auto. Sys.	3.90	28%	-	4	Auto Parts	93	1217	Calpine Corp.	12.83	24%	3	3	Power	26
2419	Diamond Offshore	16.97	28%	3	3	Oilfield Svcs/Equip.	5	943	Ciena Corp.	20.34	24%	3	4	Telecom. Equipment	37
2332	Discovery Communic.	25.21	28%	3	3	Entertainment	76	2171	Container Store Group	4.88	24%	3	5	Retail (Hardlines)	61

**STOCKS WITH HIGHEST PROJECTED 3- TO 5-YEAR DIVIDEND YIELD**  
Based upon the projected dividend per share 3 to 5 years hence divided by the recent price

Page No.	Stock Name	Recent Price	Est'd Future Yield	Time-liness	Safety Rank	Industry Group	Industry Rank	Page No.	Stock Name	Recent Price	Est'd Future Yield	Time-liness	Safety Rank	Industry Group	Industry Rank
2654	Fortress Investment	5.13	21%	3	3	Public/Private Equity	1	1531	Hospitality Properties	29.29	7%	2	3	R.E.I.T.	50
2656	Apollo Global Mgmt	17.61	20%	2	3	Public/Private Equity	1	2651	KKR & Co. L.P.	13.72	7%	1	3	Public/Private Equity	1
337	Teekay Corp.	7.92	20%	4	5	Maritime	53	2143	Kohl's Corp.	43.04	7%	1	2	Retail Store	57
2653	Blackstone Group LP	23.61	19%	1	3	Public/Private Equity	1	2396	Lamar Advertising	64.55	7%	4	3	Advertising	66
331	Frontline Ltd.	7.56	19%	3	5	Maritime	53	400	Macquarie Infrastructure	83.20	7%	3	3	Industrial Services	69
1512	Annaly Capital Mgmt.	10.10	17%	2	3	R.E.I.T.	50	620	Magellan Midstream	71.48	7%	3	3	Pipeline MLPs	6
946	Comtech Telecom.	10.88	15%	1	4	Telecom. Equipment	37	1602	Mosaic Company	23.39	7%	2	3	Chemical (Basic)	4
617	Energy Transfer	36.44	14%	2	3	Pipeline MLPs	6	2398	National CineMedia	14.10	7%	3	3	Advertising	66
2217	Stage Stores	5.16	12%	-	4	Retail (Softlines)	63	1764	National Presto Ind.	85.90	7%	3	3	Diversified Co.	36
624	Sunoco Logistics Part.	26.89	12%	2	3	Pipeline MLPs	6	513	PBF Energy	21.07	7%	3	3	Petroleum (Integrated)	18
2535	AllianceBernstein Hldg.	21.80	11%	3	3	Financial Svcs. (Div.)	58	516	Royal Dutch Shell 'B'	53.83	7%	3	2	Petroleum (Integrated)	18
1836	StoneMor Partners L.P.	24.78	11%	1	3	Funeral Services	34	748	Russel Metals	20.77	7%	1	3	Steel	7
623	Suburban Propane	33.71	11%	1	3	Pipeline MLPs	6	2150	Stein Mart	6.09	7%	3	3	Retail Store	57
1583	Alliance Resource	23.55	10%	3	3	Metals & Mining (Div.)	2	2383	Time Inc.	13.30	7%	-	3	Publishing	54
2652	Apollo Investment	5.89	10%	2	3	Public/Private Equity	1	519	Total ADR	48.54	7%	2	2	Petroleum (Integrated)	18
616	DCP Midstream Partners	34.83	10%	3	3	Pipeline MLPs	6	937	Vodafone Group ADR	28.15	7%	3	3	Telecom. Services	71
618	EnLink Midstream Part.	18.36	10%	1	3	Pipeline MLPs	6	1547	W.P. Carey Inc.	62.25	7%	3	3	R.E.I.T.	50
1032	Frontier Communic.	4.08	10%	2	4	Telecom. Utility	30	1550	Welltower Inc.	70.33	7%	3	3	R.E.I.T.	50
2655	Gladstone Capital	8.60	10%	2	3	Public/Private Equity	1	521	Western Refining	28.07	7%	4	3	Petroleum (Integrated)	18
615	Buckeye Partners L.P.	70.01	9%	3	3	Pipeline MLPs	6	1034	Windstream Hldgs.	8.40	7%	-	4	Telecom. Utility	30
1596	CF Industries	23.46	9%	2	3	Chemical (Basic)	4	920	AT&T Inc.	39.36	6%	3	1	Telecom. Services	71
619	Enterprise Products	27.03	9%	3	3	Pipeline MLPs	6	2200	Abercrombie & Fitch	15.39	6%	3	3	Retail (Softlines)	63
947	Ericsson ADR	5.47	9%	1	3	Telecom. Equipment	37	2534	Aircastle Ltd.	19.72	6%	3	3	Financial Svcs. (Div.)	58
1525	FelCor Lodging Tr.	6.52	9%	3	4	R.E.I.T.	50	1027	BT Group ADR	23.85	6%	3	3	Telecom. Utility	30
1804	Greenhill & Co.	22.95	9%	1	3	Investment Banking	10	2203	Buckle (The), Inc.	21.30	6%	2	3	Retail (Softlines)	63
621	ONEOK Partners L.P.	41.87	9%	2	3	Pipeline MLPs	6	1983	Canon Inc. ADR	29.24	6%	2	2	Foreign Electronics	52
622	Plains All Amer. Pipe.	32.46	9%	1	3	Pipeline MLPs	6	2169	Coach Inc.	35.22	6%	2	2	Retail (Hardlines)	61
1033	Telefonica SA ADR	9.73	9%	2	4	Telecom. Utility	30	821	Computer Prog. & Sys.	26.21	6%	1	3	Healthcare Information	11
625	Williams Partners L.P.	36.79	9%	2	4	Pipeline MLPs	6	1030	Consol. Communic.	24.66	6%	3	3	Telecom. Utility	30
1552	AEGON	4.15	8%	1	3	Insurance (Life)	22	1358	Cypress Semic.	10.61	6%	3	3	Semiconductor	75
1791	BGC Partners	8.85	8%	3	3	Brokers & Exchanges	47	1518	DDR Corp.</						

**HIGH RETURNS EARNED ON TOTAL CAPITAL**

Stocks with high average returns on capital in last 5 years ranked by earnings retained to common equity

Page No.	Stock Name	Ticker	Recent Price	Avg. Retained to Com. Eq.	Avg. Return On Cap.	Time-liness	Safety Rank	Beta	Current P/E Ratio	% Est'd Yield	Industry Group	Industry Rank
716	Lockheed Martin	LMT	232.79	773%	35%	3	1	0.80	19.1	3.1	Aerospace/Defense	59
1924	Mead Johnson Nutrition	MJN	80.11	724%	40%	1	2	0.90	23.3	2.1	Food Processing	49
451	Moody's Corp.	MCO	107.80	158%	41%	3	3	1.20	22.6	1.4	Information Services	74
1190	Clorox Co.	CLX	121.80	140%	34%	2	2	0.65	23.1	2.7	Household Products	28
2418	Core Laboratories	CLB	111.99	118%	49%	1	3	1.15	60.5	2.0	Oilfield Svcs/Equip.	5
2656	KKR & Co. L.P.	KKR	13.72	80%	43%	1	3	1.40	4.4	4.7	Public/Private Equity	1
1626	PDL BioPharma	PDLI	3.19	79%	85%	3	5	0.95	15.2	NIL	Drug	45
448	Gartner Inc.	IT	88.13	77%	38%	3	2	0.90	31.6	NIL	Information Services	74
2004	Strayer Education	STRA	45.31	77%	42%	2	4	1.20	14.4	NIL	Educational Services	25
1915	Herbalife, Ltd.	HLF	62.03	74%	46%	4	3	1.35	12.9	NIL	Food Processing	49
1402	Int'l Business Mach.	IBM	150.72	68%	34%	3	1	0.90	12.2	3.8	Computers/Peripherals	83
2212	Francesca's Hldgs.	FRAN	15.81	64%	47%	3	3	0.90	15.5	NIL	Retail (Softlines)	63
214	IDEXX Labs.	IDXX	112.57	62%	33%	4	3	0.90	46.7	NIL	Med Supp Non-Invasive	39
316	United Parcel Serv.	UPS	108.13	61%	31%	3	1	0.85	18.4	3.0	Air Transport	92
598	Ubiquiti Networks	UBNT	49.53	54%	43%	4	3	0.95	17.8	NIL	Wireless Networking	77
1191	Colgate-Palmolive	CL	71.93	52%	32%	2	1	0.75	25.8	2.3	Household Products	28
1615	Gilead Sciences	GILD	73.41	52%	30%	5	3	0.95	6.7	2.6	Drug	45
1978	National Beverage	FIZZ	49.50	51%	34%	3	3	0.80	29.1	NIL	Beverage	38
378	Yum! Brands	YUM	86.16	50%	32%	-	3	0.95	23.5	2.4	Restaurant	87
2627	Blue Nile	NILE	35.14	49%	48%	3	3	1.00	37.0	NIL	Internet	32
1142	Sherwin-Williams	SHW	270.85	47%	30%	3	1	0.95	21.4	1.3	Retail Building Supply	72
1792	CBOE Holdings	CBOE	65.01	46%	68%	3	3	0.75	24.5	1.5	Brokers & Exchanges	47
2654	Fortress Investment	FIG	5.13	45%	42%	3	3	1.35	5.2	7.0	Public/Private Equity	1
2567	MasterCard Inc.	MA	101.73	43%	42%	3	1	1.05	27.2	0.7	Financial Svcs. (Div.)	58
2218	TJX Companies	TJX	73.16	41%	39%	4	1	0.85	20.7	1.4	Retail (Softlines)	63
1005	WABCO Hldgs.	WBC	106.87	41%	35%	3	3	1.35	19.6	NIL	Auto Parts	93
834	Jazz Pharmac. plc	JAZZ	119.35	39%	30%	3	3	1.25	11.4	NIL	Biotechnology	40
2617	Manhattan Assoc.	MANH	59.01	39%	39%	4	3	1.10	34.7	NIL	IT Services	64
2110	Michael Kors Hldgs.	KORS	47.52	38%	38%	3	3	1.00	10.4	NIL	Apparel	86
2640	Priceline Group (The)	PCLN	1454.97	38%	30%	4	3	1.25	21.0	NIL	Internet	32
1624	Novo Nordisk ADR	NVO	40.56	37%	60%	3	2	0.90	16.9	2.7	Drug	45
2318	Polaris Inds.	PII	77.54	37%	40%	3	3	1.20	12.3	2.8	Recreation	85
2603	Accenture Plc	ACN	117.53	36%	57%	3	1	1.00	21.0	2.1	IT Services	64
2626	Baidu, Inc.	BIDU	175.65	36%	32%	3	3	1.25	29.2	NIL	Internet	32
1916	Hershey Co.	HSY	96.31	36%	30%	3	2	0.70	22.1	2.6	Food Processing	49
2216	Ross Stores	ROST	63.55	35%	38%	4	2	0.85	22.5	0.9	Retail (Softlines)	63
1998	Apollo Education Group	APOL	8.46	34%	31%	-	3	1.10	26.4	NIL	Educational Services	25
2203	Buckle (The), Inc.	BKE	21.30	33%	45%	2	3	1.00	9.4	5.1	Retail (Softlines)	63
1977	Monster Beverage	MNST	146.72	32%	32%	3	3	0.90	41.3	NIL	Beverage	38
2588	Intuit Inc.	INTU	107.15	31%	34%	3	2	1.10	25.8	1.1	Computer Software	14
1395	Apple Inc.	AAPL	117.47	30%	31%	5	2	0.95	13.7	2.0	Computers/Peripherals	83
1363	Linear Technology	LLTC	58.94	29%	37%	-	2	1.00	27.5	2.2	Semiconductor	75
2326	Sturm, Ruger & Co.	RGR	58.45	29%	45%	4	3	1.00	14.6	2.8	Recreation	85
2169	Coach Inc.	COH	35.22	28%	40%	2	3	1.10	16.4	3.8	Retail (Hardlines)	61
446	FactSet Research	FDS	155.84	28%	38%	4	2	1.00	23.7	1.3	Information Services	74
1991	Altria Group	MO	62.66	26%	30%	3	2	0.60	20.3	3.9	Tobacco	15
1143	Tile Shop Hldgs.	TTS	18.15	22%	41%	2	4	1.15	37.8	NIL	Retail Building Supply	72
385	C.H. Robinson	CHRW	68.80	21%	33%	3	2	0.85	18.5	2.5	Industrial Services	69
406	Rollins, Inc.	ROL	28.26	17%	30%	4	2	0.95	34.9	1.6	Industrial Services	69
821	Computer Prog. & Sys.	CPSI	26.21	9%	42%	1	3	0.85	23.2	5.2	Healthcare Information	11

**BARGAIN BASEMENT STOCKS**

Stocks with current price-earnings multiples and price-to-“net” working capital ratios that are in the bottom quartile of the Value Line universe (“Net” working capital equals current assets less all liabilities including long-term debt and preferred)

Page No.	Stock Name	Ticker	Recent Price	Percent Price-to “Net” Wkg. Capital	Current P/E Ratio	Percent Price-to Book Value	Time-liness	Safety Rank	Beta	% Est'd Yield	Industry Group	Industry Rank
979	China Auto. Sys.	CAAS	3.90	75%	5.5	42%	-	4	1.40	NIL	Auto Parts	93
1130	Meritage Homes	MTH	33.85	128%	9.4	107%	3	3	1.45	NIL	Homebuilding	90
1129	M.D.C. Holdings	MDC	24.37	129%	11.3	95%	3	3	1.40	4.1	Homebuilding	90
1135	Taylor Morrison Home	TMHC	17.46	138%	10.0	108%	3	3	1.45	NIL	Homebuilding	90
1134	TRI Pointe Group	TPH	12.71	143%	9.0	124%	4	3	1.35	NIL	Homebuilding	90
1803	Goldman Sachs	GS	172.63	144%	9.7	96%	2	2	1.30	1.5	Investment Banking	10
2185	Movado Group	MOV	22.10	147%	14.8	115%	3	3	1.25	2.4	Retail (Hardlines)	61
1136	Toll Brothers	TOL	28.61	152%	10.6	118%	4	3	1.35	NIL	Homebuilding	90
1388	Kulicke & Soffa	KLIC	12.93	160%	14.7	119%	3	3	1.20	NIL	Semiconductor Equip	67
1408	ScanSource	SCSC	35.50	168%	14.5	124%	2	3	1.20	NIL	Computers/Peripherals	83
1410	Tech Data	TECD	80.57	192%	13.5	141%	4	3	1.00	NIL	Computers/Peripherals	83
1127	KB Home	KBH	15.93	203%	11.1	87%	3	4	1.75	0.6	Homebuilding	90
947	Ericsson ADR	ERIC	5.47	204%	11.6	104%	1	3	1.20	8.4	Telecom. Equipment	37
1124	CalAtlantic Group	CAA	32.29	205%	8.8	101%	3	3	1.50	0.5	Homebuilding	90
2104	G-III Apparel Group	GIII	27.94	210%	12.5	143%	4	3	1.10	NIL	Apparel	86
1328	Celestica Inc.	CLS	10.42	218%	12.0	137%	2	3	1.10	NIL	Electronics	56
2188	PC Connection	CNXX	25.66	222%	13.2	173%	4	3	1.00	NIL	Retail (Hardlines)	61
2555	Franklin Resources	BEN	34.23	232%	11.8	174%	1	2	1.30	2.4	Financial Svcs. (Div.)	58
1401	Ingram Micro ‘A’	IM	36.10	244%	13.6	135%	-	3	1.05	NIL	Computers/Peripherals	83
1125	Horton D.R.	DHI	29.40	275%	11.7	184%	5	3	1.40	1.1	Homebuilding	90
1132	PulteGroup, Inc.	PHM	19.81	283%	11.2	145%	3	3	1.70	2.0	Homebuilding	90
2180	Insight Enterprises	NSIT	32.91	288%	13.1	178%	3	3	1.30	NIL	Retail (Hardlines)	61
1807	Piper Jaffray Cos.	PJC	51.00	291%	14.2	87%	3	3	1.30	NIL	Investment Banking	10
1340	Plexus Corp.	PLXS	45.58	315%	14.7	181%	2	3	1.15	NIL	Electronics	56
2222	Vera Bradley Inc.	VRA	13.87	331%	14.8	183%	3	3	1.15	NIL	Retail (Softlines)	63
1417	Essendant Inc.	ESND	18.27	332%	8.1	94%	2	3	1.10	3.1	Office Equip/Supplies	20
2204	Cato Corp.	CATO	29.74	342%	12.6	201%	4	3	1.00	4.4	Retail (Softlines)	63
2156	Deckers Outdoor	DECK	56.24	379%	13.1	186%	3	3	1.05	NIL	Shoe	81
1337	Methode Electronics	MEI	32.10	381%	13.4	252%	4	3	1.35	1.1	Electronics	56
2210	Finish Line (The)	FINL	20.92	383%	13.5	168%	3	3	0.95	1.9	Retail (Softlines)	63
1640	Kelly Services ‘A’	KELYA	18.72	389%	13.8	79%	3	3	1.20	1.6	Human Resources	78
926	Intelligent Inc.	IQNT	16.89	409%	13.1	318%	3	3	1.35	3.8	Telecom. Services	71
2160	Skechers U.S.A.	SKX	22.67	409%	12.1	262%	5	3	1.25	NIL	Shoe	81
2179	Hibbett Sports	HIBB	39.10	448%	13.1	287%	4	3	0.90	NIL	Retail (Hardlines)	61



UNTIMELY STOCKS

Stocks ranked 5 (Lowest) for Relative Price Performance in the next 12 months

Page No.	Stock Name	Recent Price	Rank	Current P/E Ratio	% Est'd Yield	Industry Group	Industry Rank	Page No.	Stock Name	Recent Price	Rank	Current P/E Ratio	% Est'd Yield	Industry Group	Industry Rank		
2602	ACI Worldwide	19.73	3	5	43.8	NIL	IT Services	64	1714	IDEX Corp. ■	86.79	2	1	22.7	1.6	Machinery	68
2330	AMC Networks	49.26	3	4	8.0	NIL	Entertainment	76	568	Innospec Inc.	61.96	3	3	16.9	1.1	Chemical (Specialty)	62
2119	Advance Auto Parts	142.99	2	3	19.3	0.2	Retail Automotive	95	1758	Kadant Inc.	51.31	3	2	16.9	1.5	Diversified Co.	36
302	Alaska Air Group	72.11	3	5	10.2	1.5	Air Transport	92	324	Knight Transportation	27.24	3	3	22.5	0.9	Trucking	94
1944	Alimentation Couche-Tard	67.13	3	3	21.7	0.5	Retail/Wholesale Food	79	1950	Kroger Co.	30.64	2	4	14.1	1.7	Retail/Wholesale Food	79
339	American Railcar	39.05	3	3	10.0	4.1	Railroad	91	1154	La-Z-Boy Inc.	24.99	3	2	13.9	1.6	Furn/Home Furnishings	96
2539	Aon plc	110.59	1	2	19.5	1.2	Financial Svcs. (Div.)	58	995	Lear Corp.	112.84	3	3	8.3	1.1	Auto Parts	93
1513	Apartment Investment	42.93	3	3	24.5	3.1	R.E.I.T.	50	1128	Lennar Corp.	41.91	3	3	10.6	0.4	Homebuilding	90
1395	Aple Inc.	117.47	2	5	13.7	2.0	Computers/Peripherals	83	595	Level 3 Commun.	47.07	4	3	26.3	NIL	Wireless Networking	77
1740	AFAMARK Holdings	36.92	3	2	29.3	1.0	Diversified Co.	36	2127	Lithia Motors ■	93.37	3	5	11.9	1.1	Retail Automotive	95
1323	Arrow Electronics	62.20	3	1	9.2	NIL	Electronics	56	571	LithiaBasell Inds.	80.18	3	5	8.2	4.2	Chemical (Specialty)	62
2163	Avis Budget Group	32.05	4	3	9.2	NIL	Retail (Hardlines)	61	2565	MGIC Investment	8.44	5	4	6.9	NIL	Financial Svcs. (Div.)	53
1147	Bassett Furniture	23.93	3	4	16.0	1.7	Furn/Home Furnishings	96	336	Matson, Inc.	40.38	3	5	19.0	1.9	Maritime	58
1176	Berry Plastics Group	45.11	3	3	17.2	NIL	Packaging & Container	82	998	Meritor, Inc.	10.56	5	3	6.6	NIL	Auto Parts	93
2357	Boyd Gaming	19.04	5	3	15.2	NIL	Hotel/Gaming	80	1368	Microsemi Corp.	37.92	3	2	11.2	NIL	Semiconductor	75
354	Brinker Int'l	50.25	3	3	13.9	2.7	Restaurant	87	573	Minerals Techn.	68.65	3	3	15.0	0.3	Chemical (Specialty)	62
2303	Brunswick Corp.	48.33	3	5	13.3	1.4	Recreation	85	2002	New Orient. Ed. ADS	47.17	3	3	28.2	NIL	Educational Services	25
2609	CDW Corp.	44.28	3	3	14.6	1.0	IT Services	64	2343	Nextstar Broadcasting	51.90	3	2	12.2	1.8	Entertainment	76
2154	Caleres Inc.	25.40	3	5	12.3	1.1	Shoe	81	452	Nielsen Hdgcs. plc	53.89	2	3	18.3	2.3	Information Services	74
2102	Carters Inc.	85.92	3	2	16.8	1.5	Apparel	86	719	Northrop Grumman	219.44	1	4	19.9	1.6	Aerospace/Defense	59
1946	Casey's Gen'l Stores	116.53	3	2	20.3	0.8	Retail/Wholesale Food	79	1115	Owens Corning	52.12	3	3	14.8	1.4	Building Materials	89
2307	Cedar Fair L.P.	58.03	3	3	16.0	5.7	Recreation	85	2233	PNM Resources	32.30	3	3	18.9	2.7	Electric Utility (West)	31
2446	Celanese Corp.	69.37	3	4	10.6	2.1	Chemical (Diversified)	88	1182	Packaging Corp.	83.77	3	3	16.9	3.0	Packaging & Container	82
2308	Cinemark Hldgs.	39.90	3	3	21.8	2.7	Recreation	85	1823	Paylocity Holding Corp	44.36	4	3	NMF	NIL	E-Commerce	65
1019	Cogeco Commun.	63.10	3	5	12.0	2.5	Cable TV	73	2130	Penske Auto	45.32	3	3	11.4	2.7	Retail Automotive	95
1020	Comcast Corp.	64.88	2	3	18.6	1.7	Cable TV	73	2521	Popular Inc. ■	37.86	4	1	11.0	1.6	Bank	51
982	Cooper-Standard Holdings	95.31	3	3	11.0	NIL	Auto Parts	93	1342	Sammina Corp.	28.20	3	3	10.8	NIL	Electronics	56
358	Cracker Barrel	132.09	1	1	16.1	3.5	Restaurant	87	1198	Scotts Miracle-Gro	86.64	3	4	23.8	2.4	Household Products	28
1178	Crown Holdings	55.98	3	3	14.0	NIL	Packaging & Container	82	2191	Signet Jewelers Ltd.	80.40	3	4	10.7	1.4	Retail (Hardlines)	61
1148	Culp Inc.	30.15	3	2	14.7	0.9	Furn/Home Furnishings	96	2160	Skchers U.S.A.	22.67	3	4	12.1	NIL	Shoe	81
308	Delta Air Lines	39.46	3	5	6.7	2.1	Air Transport	92	1377	Skyworks Solutions	77.65	3	5	17.1	1.4	Semiconductor	75
159	Douglas Dynamics	32.05	3	3	19.5	2.9	Heavy Truck & Equip	55	313	Southwest Airlines	41.68	3	5	10.3	1.0	Air Transport	92
923	Dycem Inds.	85.07	3	3	16.2	NIL	Telecom. Services	71	327	Swift Transportation	20.00	4	3	14.1	NIL	Trucking	94
2010	Electronic Arts	84.01	3	3	24.4	NIL	Entertainment Tech	44	2014	Synchronoss Techn.	36.72	3	2	14.3	NIL	Entertainment Tech	44
1219	Emera Inc.	46.87	3	3	15.6	4.5	Power	26	932	T-Mobile US	47.35	3	3	39.1	NIL	Telecom. Services	71
605	Enbridge Inc.	58.16	2	2	24.1	3.6	Oil/Gas Distribution	8	1079	Taiwan Semic. ADR	30.86	2	3	15.7	3.0	Semiconductor	75
1521	Equity Residential	61.08	3	4	38.4	3.5	R.E.I.T.	50	1323	Teneco Inc.	53.36	4	2	8.8	NIL	Auto Parts	93
1615	Gilead Sciences	73.41	3	4	6.7	2.6	Drug	45	518	Tesoro Corp.	61.44	3	5	9.0	2.7	Petroleum (Integrated)	78
992	Goodyear Tire	31.11	3	3	7.5	1.3	Auto Parts	93	2350	Time Warner	79.51	3	3	14.6	2.0	Entertainment	76
1179	Graphic Packaging	13.68	3	1	14.1	1.5	Packaging & Container	82	1731	Toro Co.	47.18	3	3	22.2	1.3	Machinery	68
345	Greenbrier (The) Cos.	35.55	4	4	8.7	2.4	Railroad	91	348	Trinity Inds.	23.13	3	3	11.8	1.9	Railroad	91
2125	Group 1 Automotive ■	61.61	3	5	8.0	1.6	Retail Automotive	95	1939	Trinity Foods 'A'	71.56	3	3	15.2	1.0	Food Processing	49
802	HCA Holdings	82.02	3	3	12.5	NIL	Medical Services	70	1119	USG Corp.	26.46	5	3	14.1	NIL	Building Materials	92
1151	HNI Corp.	37.65	3	1	12.8	2.9	Furn/Home Furnishings	96	315	United Cont'l Hldgs.	53.68	4	4	7.1	NIL	Air Transport	89
310	Hawaiian Hldgs.	49.10	4	3	10.2	NIL	Air Transport	92	1732	United Rentals	76.44	4	2	9.6	NIL	Machinery	68
1111	Headwaters Inc.	17.35	4	4	15.9	NIL	Building Materials	89	1120	Universal Forest ■	95.95	3	1	19.0	0.9	Building Materials	89
212	Hill-Rom Hldgs.	59.90	3	3	16.8	1.1	Med Supp Non-Invasive	39	815	Universal Health Sv. 'B'	125.85	3	3	16.5	0.3	Medical Services	70
1125	Horton D.R.	29.40	3	2	11.7	1.1	Homebuilding	90	938	Vonage Holdings	6.25	4	2	20.8	NIL	Telecom. Services	71
323	Hunt (J.B.)	78.99	2	3	19.9	1.1	Trucking	94	169	Wabash National	13.45	4	3	7.6	NIL	Heavy Truck & Equip	55
714	Huntington Ingalls	160.58	3	3	16.3	1.2	Aerospace/Defense	59	195	Zimmer Biomet Hldgs.	129.10	1	3	15.6	0.8	Med Supp Invasive	48

■ Newly added this week.

HIGHEST DIVIDEND YIELDING NON-UTILITY STOCKS

Based upon estimated year-ahead dividends per share

Page No.	Stock Name	Recent Price	Time-liness	Rank	Current P/E Ratio	% Est'd Yield	Industry Group	Industry Rank	Page No.	Stock Name	Recent Price	Time-liness	Rank	Current P/E Ratio	% Est'd Yield	Industry Group	Industry Rank
1597	CVR Partners, LP	4.86	2	3	NMF	14.0†	Chemical (Basic)	4	1589	Natural Resource	30.18	-	5	4.0	6.0†	Metals & Mining (Div.)	2
1512	Annaly Capital Mgmt.	10.10	2	3	8.6	11.9	R.E.I.T.	50	1764	National Presto Ind.	85.90	3	3	15.4	5.9	Diversified Co.	36
617	Energy Transfer	36.44	2	3	24.6	11.6	Pipeline MLPs	6	1596	CF Industries	23.46	2	3	27.9	5.8	Chemical (Basic)	4
2217	Stage Stores	5.16	-	4	19.1	11.6	Retail (Softlines)	63	2164	Barnes & Noble	10.50	-	4	35.0	5.7	Retail (Hardlines)	61
946	Comtech Telecom.	10.88	1	4	NMF	11.0	Telecom. Equipment	37	2307	Cedar Fair L.P.	58.03	5	3	16.0	5.7	Recreation	85
1836	StoneMor Partners L.P.	24.78	1	3	NMF	10.7	Funeral Services	34	507	HollyFrontier Corp.	23.80	2	3	16.6	5.7	Petroleum (Integrated)	18
331	Frontline Ltd.	7.56	3	5	7.2	10.6	Maritime	53	397	Iron Mountain	34.15	2	3	30.0	5.7	Industrial Services	69
623	Suburban Propane	33.71	1	3	21.9	10.5	Pipeline MLPs	6	513	PBF Energy	21.07	3	3	8.4	5.7	Petroleum (Integrated)	18
2652	Apollo Investment	5.89	2	3	29.5	10.2	Public/Private Equity	1	2383	Time Inc.	13.30	-	3	8.5	5.7	Publishing	54
2655	Goldstone Capital	8.60	2	3	9.7	9.8	Public/Private Equity	1	519	Total ADR	48.54	2	2	12.5	5.7	Petroleum (Integrated)	18
1209	Liberty All-Star	5.07	-	2	NMF	9.5	Investment Co.	-	2360	Extended Stay America	13.70	3	3	15.4	5.5	Hotel/Gaming	80
625	Williams Partners L.P.	36.79	2	4	21.0	9.2	Pipeline MLPs	6	2200	Abercrombie & Fitch	15.39	3	3	22.3	5.4	Retail (Softlines)	63
2388	New Media Investment	14.55	-	3	16.3	9.1†	Newspaper	-	521	Western Refining	28.07	4	3	10.7	5.4	Petroleum (Integrated)	18
616	DCP Midstream Partners	34.83	3	3	24.2	9.0	Pipeline MLPs	6	1602	Mosaic Company	23.39	2	3	37.7	5.3	Chemical (Basic)	4
2535	AllianceBernstein Hldg.	21.80	3	3	11.5	8.9	Financial Svcs. (Div.)	58	821	Computer Prog. & Sys.	26.21	1	3	23.2	5.2	Healthcare Information	11
1203	Aberdeen Asia-Pac. Fd.	4.90	-	4	NMF	8.6	Investment Co.	-	102	Daimler AG	70.80	3	3	7.3	5.2	Automotive	60
618	EnLink Midstream Part.	18.36	1	3	NMF	8.5	Pipeline MLPs	6	2515	HSBC Holdings PLC	38.33	1	3	10.0	5.2	Bank	51
2651	Apollo Global Mgmt	17.61	2	3	6.7	8.4	Public/Private Equity	1	1532	Host Hotels & Resorts	15.70	3	3	17.4	5.2	R.E.I.T.	50
947	Ericsson ADR	5.47	1	3	11.6	8.4	Telecom. Equipment	37	2203	Buckle (The), Inc.	21.30	2	3	9.4	5.1	Retail (Softlines)	63
1210	MFS Multimarket	5.90	-	4	NMF	8.1	Investment Co.										

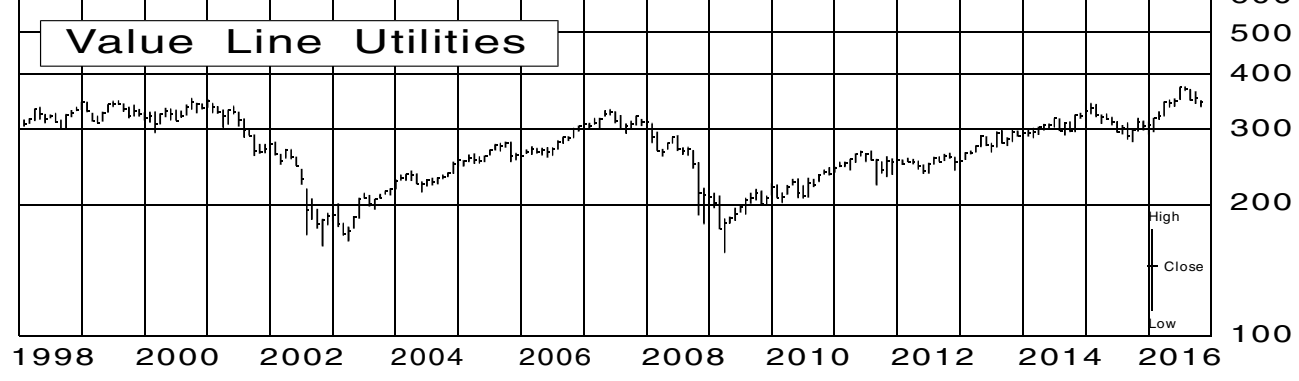
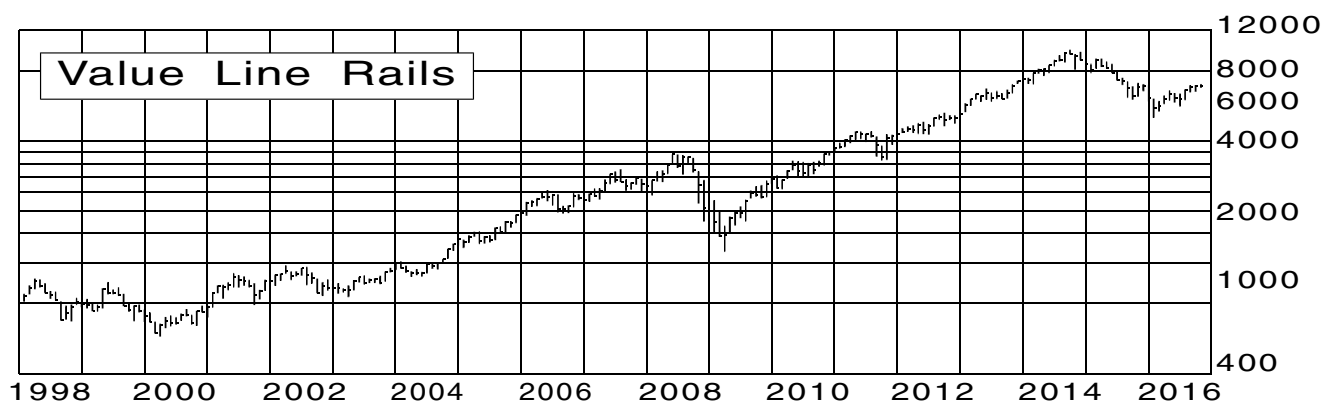
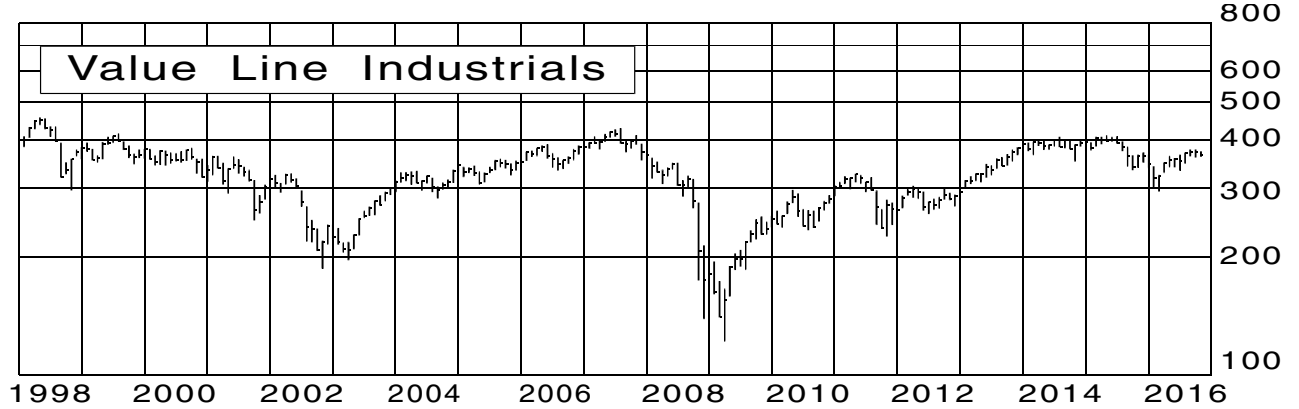
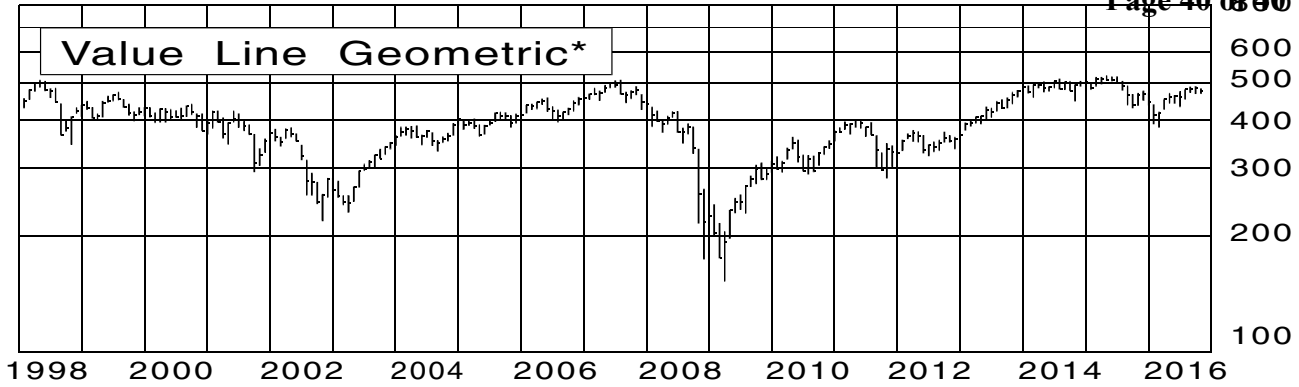
HIGHEST GROWTH STOCKS

(To be included, a company's annual growth of sales, cash flow, earnings, dividends and book value must together have averaged 10% or more over the past 10 years and be expected to average at least 10% in the coming 3-5 years.)

Page No.	Stock Name	Ticker	Recent Price	Growth Past 10 Years	Est'd Growth 3-5 Years	Time-liness	Safety Rank	Beta	Current P/E Ratio	% Est'd Yield	Estimated 3-5 Year Price Appreciation	Industry Group	Industry Rank
1702	AAON, Inc.	AAON	29.20	12%	15%	4	3	1.25	28.6	0.9	20- 70%	Machinery	68
2119	Advance Auto Parts	AAP	142.99	15%	11%	5	2	0.90	19.3	0.2	10- 50%	Retail Automotive	95
302	Alaska Air Group	ALK	72.11	15%	11%	5	3	1.15	10.2	1.5	10- 65%	Air Transport	92
1944	Alimentation Couche-Tard	ATDB.TO	67.13	21%	17%	5	3	0.60	21.7	0.5	35- 95%	Retail/Wholesale Food	79
1609	Allergan plc	AGN	227.94	20%	10%	4	3	0.90	15.3	NIL	35-105%	Drug	45
2624	Alphabet Inc.	GOOG	795.26	33%	14%	3	2	1.00	28.0	NIL	10- 50%	Internet	32
827	Amgen	AMGN	162.80	14%	10%	4	1	0.95	14.3	2.6	25- 55%	Biotechnology	40
1395	Apple Inc.	AAPL	117.47	45%	11%	5	2	0.95	13.7	2.0	30- 75%	Computers/Peripherals	83
704	Astronics Corp.	ATRO	36.51	21%	11%	4	3	1.15	18.4	NIL	25- 80%	Aerospace/Defense	59
351	BJ's Restaurants	BJRI	35.42	17%	15%	4	3	0.90	18.4	NIL	170-310%	Restaurant	87
560	Balchem Corp.	BCPC	75.96	19%	11%	3	3	1.00	35.7	0.4	N- 30%	Chemical (Specialty)	62
2134	Big Lots Inc.	BIG	44.61	12%	12%	3	3	1.05	12.4	2.1	45-125%	Retail Store	57
1966	Boston Beer 'A'	SAM	158.10	20%	11%	4	3	0.90	24.1	NIL	60-140%	Beverage	38
355	Buffalo Wild Wings	BWLD	138.90	25%	14%	4	3	0.85	23.1	NIL	35-100%	Restaurant	87
966	CVS Health	CVS	87.19	14%	11%	4	1	0.85	14.5	1.9	55- 90%	Pharmacy Services	84
1907	Calavo Growers	CMGW	63.65	11%	12%	3	3	0.70	28.0	1.4	N- 25%	Food Processing	49
203	Cantel Medical Corp.	CMN	76.11	12%	13%	4	3	1.05	45.3	0.2	N- 10%	Med Supp Non-Invasive	39
2102	Carter's Inc.	CRI	85.92	15%	12%	5	3	0.75	16.8	1.5	40-110%	Apparel	86
2446	Celanese Corp.	CE	69.37	16%	11%	5	3	1.45	10.6	2.1	25- 80%	Chemical (Diversified)	88
1613	Celgene Corp.	CELG	100.06	36%	18%	3	3	1.10	18.2	NIL	45-120%	Drug	45
797	Centene Corp.	CNC	61.41	16%	20%	4	3	0.95	12.4	NIL	45-120%	Medical Services	70
820	Cerner Corp.	CERN	61.15	18%	13%	3	2	1.00	25.3	NIL	15- 45%	Healthcare Information	11
1745	Chemed Corp.	CHE	141.37	14%	11%	3	3	0.80	21.5	0.7	5- 50%	Diversified Co.	36
2610	Cognizant Technology	CTSH	50.22	31%	13%	4	2	1.05	14.6	NIL	60-110%	IT Services	64
2124	Copart, Inc.	CPRT	54.12	13%	12%	4	2	0.90	22.6	NIL	N- 40%	Retail Automotive	95
443	CoStar Group	CSGP	209.75	15%	15%	3	3	1.10	47.5	NIL	10- 65%	Information Services	74
2628	Ctrip.com Int'l ADR	CTRP	47.06	32%	21%	3	3	1.15	NMF	NIL	5- 50%	Internet	32
2140	Dollar Tree, Inc.	DLTR	76.25	16%	19%	3	2	0.75	19.6	NIL	45- 95%	Retail Store	57
180	Edwards Lifesciences	EW	118.22	13%	14%	4	3	0.85	39.5	NIL	20- 80%	Med Supp Invasive	48
1614	Endo Int'l plc	ENDP	19.85	12%	13%	3	3	0.90	4.2	NIL	125-225%	Drug	45
445	Egulfax, Inc.	EFX	130.28	12%	10%	4	2	1.00	23.6	1.0	10- 50%	Information Services	74
948	F5 Networks	FFIV	117.56	25%	10%	3	3	1.15	21.3	NIL	15- 70%	Telecom. Equipment	37
446	FactSet Research	FDS	155.84	15%	10%	4	2	1.00	23.7	1.3	5- 40%	Information Services	74
448	Gartner Inc.	IT	88.13	14%	12%	3	2	0.90	31.6	NIL	40- 85%	Information Services	74
2557	Global Payments	GP	74.21	12%	13%	3	2	1.10	32.7	0.1	15- 55%	Financial Svcs. (Div.)	58
394	Healthcare Svcs.	HCSG	37.49	12%	12%	3	2	0.85	34.1	2.1	N- 35%	Industrial Services	69
713	HEICO Corp.	HEI	67.53	18%	12%	4	3	0.95	27.5	0.3	20- 80%	Aerospace/Defense	59
213	Hologic, Inc.	HOLX	38.73	14%	11%	2	3	1.10	35.2	NIL	5- 40%	Med Supp Non-Invasive	39
1917	Hormel Foods	HRL	38.27	10%	12%	3	1	0.75	23.3	1.7	5- 30%	Food Processing	49
323	Hunt (J.B.)	JBHT	78.99	12%	11%	5	2	0.90	19.9	1.1	20- 65%	Trucking	94
214	IDEXX Labs.	IDXX	112.57	14%	10%	4	3	0.90	46.7	NIL	N- 35%	Med Supp Non-Invasive	39
2616	Infosys Ltd. ADR	INFY	15.91	20%	11%	3	2	0.90	15.2	2.6	90-150%	IT Services	64
2588	Intuit Inc.	INTU	107.15	12%	12%	3	2	1.10	25.8	1.1	25- 70%	Computer Software	14
185	Intuitive Surgical	ISRG	721.73	30%	10%	3	3	0.85	39.3	NIL	N- 30%	Med Supp Invasive	48
928	i2 Global	JCOM	64.62	17%	11%	3	3	1.00	20.7	2.3	30-100%	Telecom. Services	71
1950	Kroger Co.	KR	30.64	10%	10%	5	2	0.80	14.1	1.7	30- 80%	Retail/Wholesale Food	79
994	LKQ Corp.	LKQ	32.93	25%	13%	4	3	1.05	17.1	NIL	50-130%	Auto Parts	93
806	Laboratory Corp.	LH	138.31	11%	10%	3	1	0.85	15.3	NIL	20- 45%	Medical Services	70
1389	Lam Research	LRCX	99.47	14%	12%	4	3	1.15	17.4	1.2	N- 10%	Semiconductor Equip	67
996	Linamar Corp.	LNR.TO	52.60	11%	13%	4	3	1.05	6.4	0.8	70-155%	Auto Parts	93
2617	Manhattan Assoc.	MANH	59.01	15%	15%	4	3	1.10	34.7	NIL	10- 60%	IT Services	64
401	MAXIMUS Inc.	MMS	54.18	16%	16%	3	3	0.95	18.0	0.3	40-110%	Industrial Services	69
219	McKesson Corp.	MCK	162.10	14%	11%	3	1	0.95	11.7	0.7	70-105%	Med Supp Non-Invasive	39
809	MEDNAX, Inc.	MD	66.98	13%	12%	4	2	0.90	16.3	NIL	25- 65%	Medical Services	75
1368	Microsemi Corp.	MSCC	37.92	17%	16%	5	3	1.30	11.2	NIL	60-125%	Semiconductor	70
1720	Middleby Corp. (The)	MIDD	117.68	21%	13%	4	3	1.10	23.6	NIL	N- 45%	Machinery	68
1977	Monster Beverage	MNST	146.72	33%	14%	3	3	0.90	41.3	NIL	N- 25%	Beverage	38
2636	Netflix, Inc.	NFLX	118.79	27%	18%	3	3	0.95	NMF	NIL	N- 35%	Internet	32
2159	NIKE, Inc. 'B'	NKE	51.22	12%	13%	4	1	0.85	22.7	1.2	25- 55%	Shoe	81
1624	Novo Nordisk ADR	NVO	40.56	18%	11%	3	2	0.90	16.9	2.7	60-110%	Drug	45
1927	NutriSystem Inc.	NTRI	30.70	13%	16%	2	3	1.00	26.5	2.3	N- 45%	Food Processing	49
1370	VIDIA Corp.	NVDA	66.61	11%	12%	3	3	1.10	38.3	0.7	N- N%	Semiconductor	75
222	Omniceil, Inc.	OMCL	35.65	15%	12%	2	3	0.95	99.0	NIL	10- 70%	Med Supp Non-Invasive	39
1822	Open Text Corp.	OTEX	64.39	16%	13%	4	3	0.95	25.8	1.4	15- 70%	E-Commerce	65
2129	O'Reilly Automotive	ORLY	278.07	18%	12%	3	2	0.75	25.0	NIL	N- 25%	Retail Automotive	95
367	Papa John's Int'l	PZZA	79.59	11%	15%	4	3	0.70	31.5	1.0	N- 5%	Restaurant	87
1627	PAREXEL Int'l	PRXL	67.59	18%	13%	4	3	1.05	19.0	NIL	35- 90%	Drug	45
1628	Perrigo Co. plc	PRGO	88.24	20%	10%	4	3	0.80	12.5	0.7	80-170%	Drug	45
2640	Priceline Group (The)	PCLN	1454.97	43%	15%	4	3	1.25	21.0	NIL	40-110%	Internet	32
2595	Red Hat, Inc.	RHT	77.50	16%	13%	3	3	1.20	55.4	NIL	15- 70%	Computer Software	14
370	Red Robin Gourmet	RRGB	42.65	10%	13%	4	3	1.00	11.8	NIL	125-240%	Restaurant	87
406	Rollins, Inc.	ROL	28.26	12%	12%	4	2	0.95	34.9	1.6	25- 60%	Industrial Services	69
2216	Ross Stores	ROST	63.55	18%	10%	4	2	0.85	22.5	0.9	N- 25%	Retail (Softlines)	63
1575	Royal Gold	RGLD	68.87	16%	15%	1	3	0.95	47.2	1.4	30- 95%	Precious Metals	3
2620	SEI Investments	SEIC	44.44	11%	12%	3	2	1.20	20.7	1.3	25- 80%	IT Services	64
749	Schnitzer Steel	SCHN	21.75	10%	11%	1	3	1.45	42.6	3.4	15- 60%	Steel	7
930	Shenandoah Telecom.	SHEN	26.55	11%	14%	3	3	1.05	27.4	1.0	30-105%	Telecom. Services	71
1142	Sherwin-Williams	SHW	270.85	11%	11%	3	1	0.95	21.4	1.3	15- 40%	Retail Building Supply	72
2346	Sinclair Broadcast	SBGI	26.50	14%	12%	4	4	1.30	7.9	2.7	70-185%	Entertainment	76
2160	Skechers U.S.A.	SKX	22.67	13%	16%	5	3	1.25	12.1	NIL	55-145%	Shoe	81
1377	Skyworks Solutions	SKWS	77.65	20%	17%	5	3	1.40	17.1	1.4	30- 95%	Semiconductor	75
313	Southwest Airlines	LUV	41.68	14%	14%	5	3	1.15	10.3	1.0	45-115%	Air Transport	92
1245	Stantec Inc.	STN.TO	30.75	15%	10%	3	3	0.85	17.6	1.5	15- 80%	Engineering & Const	35
375	Starbucks Corp.	SBUX	52.61	15%	15%	3	1	0.95	25.9	1.8	35- 70%	Restaurant	87
961	Synaptics	SYNA	65.90	25%	12%	4	3	1.15	15.7	NIL	60-135%	Telecom. Equipment	37
2218	TJX Companies	TJX	73.16	15%	11%	4	1	0.85	20.7	1.4	30- 55%	Retail (Softlines)	63
1379	Taiwan Semic. ADR	TSM	30.86	12%	11%	5	2	0.95	15.7	3.0	15- 60%	Semiconductor	75
724	TASER Int'l	TASR	22.63	17%	3%	4	1.20	61.2	NIL	NIL	55-165%	Aerospace/Defense	59
1731	Toro Co.	TTC	47.18	11%	11%	5	3	0.95	22.2	1.3	N- 5%	Machinery	68
1144	Tractor Supply	TSCO	65.27	17%	12%	4	3	0.95	19.7	1.5	30- 90%	Retail Building Supply	72
841	United Therapeutics	UTHR	116.97	33%	14%	4	3	1.00	8.9	NIL	95-200%	Biotechnology	40
814	UnitedHealth Group	UNH	143.39	15%	13%	4	1	0.90	17.4	1.7	N- 20%	Medical Services	70
815	Universal Health Sv. 'B'	UHS	125.85	12%	11%	5	3	1.10	16.5	0.3	5- 60%	Medical Services	70
2221	Urban Outfitters	URBN	33.26	15%	11%	3	3	0.90	15.5	NIL	50-140%	Retail (Softlines)	63
816	VCA Inc.	WOOF	68.99	12%	13%	3	3	1.05	24.8	NIL	N- 45%	Medical Services	70
420	Waste Connections	WCN	74.55	10%	11%	3	2	0.75	27.2	0.9	25- 70%	Environmental	24
824	WebMD Health	WBMD	50.04	19%	14%	3	4	1.00	27.2	NIL	20- 90%	Healthcare Information	11
138	Woodward, Inc.	WWD	59.28	13%	10%	3	3	1.20	19.5	0.7	20- 75%	Precision Instrument	23
2645	XO Group	XOXO	18.83	11%	16%	3	3	0.80	41.8	NIL	5- 60%	Internet	32
601	Zebra Techn. 'A'	ZBRA	65.36	12%	14%	4	3	1.15	11.4	NIL	40-115%	Wireless Networking	77

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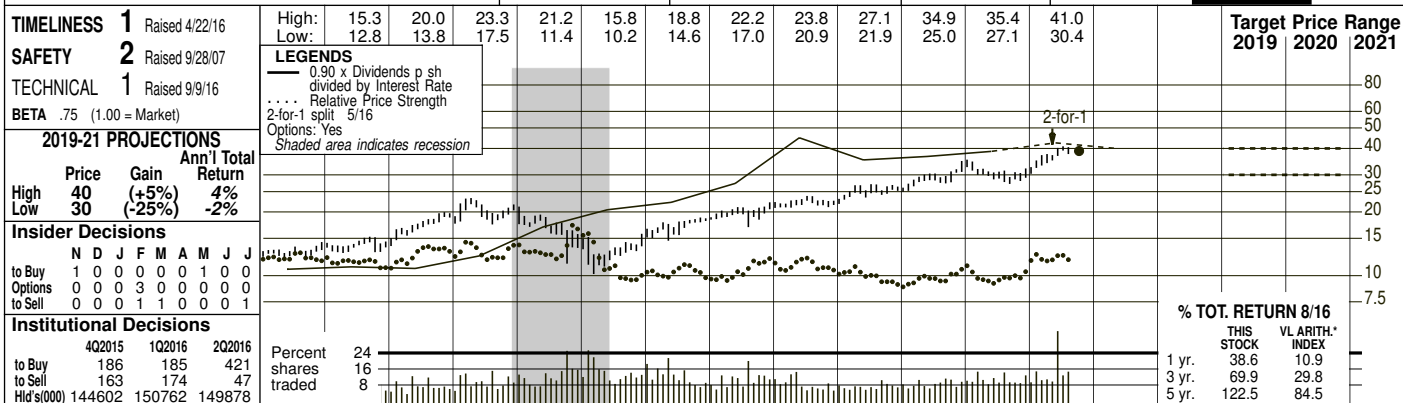


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# ALLIANT ENERGY NYSE-LNT

RECENT PRICE **38.81** P/E RATIO **19.9** (Trailing: 22.1; Median: 15.0) RELATIVE P/E RATIO **1.05** DIV'D YLD **3.0%** VALUE LINE



Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenues per sh	14.46	15.57	16.67	15.51	15.40	16.51	13.94	14.77	15.10	14.34	<b>14.70</b>	<b>15.45</b>	<b>15.45</b>	17.85	17.85	17.85
"Cash Flow" per sh	2.16	2.56	2.28	2.10	2.60	2.75	2.95	3.34	3.44	3.45	<b>3.75</b>	<b>4.00</b>	<b>4.00</b>	4.95	4.95	4.95
Earnings per sh <sup>A</sup>	1.03	1.35	1.27	.95	1.38	1.38	1.53	1.65	1.74	1.69	<b>1.90</b>	<b>2.00</b>	<b>2.00</b>	2.45	2.45	2.45
Div'd Decl'd per sh <sup>B</sup>	.58	.64	.70	.75	.79	.85	.90	.94	1.02	1.10	<b>1.18</b>	<b>1.25</b>	<b>1.25</b>	1.50	1.50	1.50
Cap'l Spending per sh <sup>C</sup>	1.71	2.46	3.98	5.43	3.91	3.03	5.22	3.32	3.78	4.25	<b>4.50</b>	<b>4.85</b>	<b>4.85</b>	5.65	5.65	5.65
Book Value per sh <sup>D</sup>	11.42	12.15	12.78	12.54	13.05	13.57	14.12	14.79	15.54	16.41	<b>18.05</b>	<b>18.75</b>	<b>18.75</b>	20.00	20.00	20.00
Common Shs Outst'g <sup>D</sup>	232.25	220.72	220.90	221.31	221.79	222.04	221.97	221.89	221.87	226.92	<b>230.00</b>	<b>230.00</b>	<b>230.00</b>	230.00	230.00	230.00
Avg Ann'l P/E Ratio	16.8	15.1	13.4	13.9	12.5	14.5	14.5	15.3	16.6	18.1	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>	15.0	15.0	15.0
Relative P/E Ratio	.91	.80	.81	.93	.80	.91	.92	.86	.87	.92	<b>1.05</b>	<b>1.05</b>	<b>1.05</b>	1.05	1.05	1.05
Avg Ann'l Div'd Yield	3.3%	3.1%	4.1%	5.7%	4.6%	4.3%	4.1%	3.7%	3.5%	3.6%	<b>3.0%</b>	<b>3.0%</b>	<b>3.0%</b>	3.0%	3.0%	3.0%

Category	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenues (\$mill)	3359.4	3437.6	3681.7	3432.8	3416.1	3665.3	3094.5	3276.8	3350.3	3253.6	<b>3380</b>	<b>3550</b>	<b>3550</b>	4100	4100	4100
Net Profit (\$mill)	260.1	320.8	280.0	208.6	303.9	304.4	337.8	382.1	385.5	380.7	<b>435</b>	<b>460</b>	<b>460</b>	565	565	565
Income Tax Rate	43.8%	44.4%	33.4%	--	30.1%	19.0%	21.5%	12.4%	10.1%	15.3%	<b>15.0%</b>	<b>15.0%</b>	<b>15.0%</b>	15.0%	15.0%	15.0%
AFUDC % to Net Profit	3.1%	2.4%	--	--	--	--	--	--	6.5%	7.0%	<b>7.0%</b>	<b>7.0%</b>	<b>7.0%</b>	7.0%	7.0%	7.0%
Long-Term Debt Ratio	31.4%	32.4%	36.3%	44.3%	46.3%	45.7%	48.4%	46.1%	49.7%	48.6%	<b>49.5%</b>	<b>49.5%</b>	<b>49.5%</b>	49.5%	49.5%	49.5%
Common Equity Ratio	62.9%	61.9%	58.6%	51.2%	49.5%	50.9%	48.4%	50.8%	47.5%	51.4%	<b>49.5%</b>	<b>49.5%</b>	<b>49.5%</b>	49.5%	49.5%	49.5%
Total Capital (\$mill)	4218.4	4329.5	4815.6	5423.0	5840.8	5921.2	6476.6	6461.0	7257.2	7246.3	<b>7600</b>	<b>7800</b>	<b>7800</b>	8200	8200	8200
Net Plant (\$mill)	4944.9	4679.9	5353.5	6203.0	6730.6	7037.1	7838.0	7147.3	6442.0	8970.2	<b>8200</b>	<b>8200</b>	<b>8200</b>	8800	8800	8800
Return on Total Cap'l	7.5%	8.6%	7.0%	5.1%	6.6%	6.4%	6.3%	7.0%	5.3%	5.1%	<b>5.5%</b>	<b>5.5%</b>	<b>5.5%</b>	7.0%	7.0%	7.0%
Return on Shr. Equity	9.0%	11.0%	9.1%	6.9%	9.7%	9.5%	10.1%	11.0%	10.6%	9.7%	<b>10.5%</b>	<b>10.5%</b>	<b>10.5%</b>	12.0%	12.0%	12.0%
Return on Com Equity <sup>E</sup>	9.1%	11.3%	9.3%	6.8%	9.9%	9.5%	10.3%	11.3%	10.9%	10.0%	<b>11.0%</b>	<b>11.0%</b>	<b>11.0%</b>	12.5%	12.5%	12.5%
Retained to Com Eq	4.0%	5.9%	3.8%	.9%	3.8%	3.3%	3.9%	4.9%	4.3%	3.4%	<b>4.0%</b>	<b>4.5%</b>	<b>4.5%</b>	5.5%	5.5%	5.5%
All Div'ds to Net Prof	59%	50%	62%	88%	64%	67%	64%	57%	59%	65%	<b>62%</b>	<b>63%</b>	<b>63%</b>	61%	61%	61%

**CAPITAL STRUCTURE as of 6/30/16**  
 Total Debt \$3902.7 mill. Due in 5 Yrs \$1100.0 mill.  
 LT Debt \$3588.7 mill. LT Interest \$175.0 mill.  
 (LT interest earned: 3.6x)

**Pension Assets-12/15** \$895.0 mill. **Oblig.** \$1206.3 mill.  
**Pfd Stock** \$400.0 mill. **Pfd Div'd** \$10.2 mill.  
 16,000,000 shs.

**Common Stock** 226,918,432 shs.  
 Adjusted for 2-for-1 split 4/20/16

**MARKET CAP: \$8.8 billion (Large Cap)**

**ELECTRIC OPERATING STATISTICS**

	2013	2014	2015
% Change Retail Sales (KWH)	+1	+1	-1
Avg. Indust. Use (MWH)	11471	11821	11735
Avg. Indust. Revs. per KWH (c)	6.75	6.85	6.92
Capacity at Peak (Mw)	5820	5426	5385
Peak Load, Summer (Mw)	5820	5426	5385
Annual Load Factor (%)	NA	NA	NA
% Change Customers (yr-end)	+4	+4	+3

**BUSINESS:** Alliant Energy Corp., formerly named Interstate Energy, is a holding company formed through the merger of WPL Holdings, IES Industries, and Interstate Power. Supplies electricity, gas, and other services in Wisconsin, Iowa, and Minnesota. Elect. revs. by state: WI, 44%; IA, 55%; MN, 1%. Elect. rev.: residential, 39%; commercial, 24%; industrial, 30%; wholesale, 6%; other, 1%. Fuel sources, 2015: coal, 46%; gas, 19%; other, 35%. Fuel costs: 49% of revs. 2015 depreciation rate: 5.7%. Estimated plant age: 13 years. Has 4,070 employees. Chairman & Chief Executive Officer: Patricia L. Kampling. Incorporated: Wisconsin. Address: 4902 N. Biltmore Lane, Madison, Wisconsin 53718. Telephone: 608-458-3311. Internet: www.alliantenergy.com.

**Alliant Energy reported better-than-expected second-quarter results.** The company posted share net of \$0.37, rising 23% versus the year-earlier figure, and easily topping our \$0.30 estimate. The performance was driven by a large uptick in electric sales to commercial entities, coupled with newly implemented cost-containment initiatives. Given the impressive results, we are increasing our 2016 full-year earnings estimate by a nickel, to \$1.90 a share. That is slightly below the high end of management's share-net guidance of \$1.80 to \$1.95.

Cal-endar	QUARTERLY REVENUES (\$ mill.)				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2013	859.6	718.0	866.6	832.6	3278.8
2014	952.8	750.3	843.1	804.1	3350.3
2015	897.4	717.2	898.9	740.1	3253.6
2016	843.8	754.2	<b>930</b>	<b>852</b>	<b>3380</b>
2017	<b>885</b>	<b>780</b>	<b>975</b>	<b>910</b>	<b>3550</b>

**Alliant asked the Iowa Utilities Board to approve a \$1 billion plan that would expand its wind energy operations in the state.** The new project is part of the company's efforts to reduce carbon emissions and improve its clean energy profile. The \$1 billion would be invested over five years, and add approximately 500 megawatts of wind power to an existing farm in northern Iowa. The utility is requesting an 11.5% return on common equity. If authorized, the project is expected to be completed by 2020.

Cal-endar	EARNINGS PER SHARE <sup>A</sup>				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2013	.36	.30	.72	.27	1.65
2014	.49	.28	.70	.27	1.74
2015	.44	.30	.80	.15	1.69
2016	.43	.37	<b>.90</b>	<b>.20</b>	<b>1.90</b>
2017	<b>.48</b>	<b>.30</b>	<b>.90</b>	<b>.32</b>	<b>2.00</b>

Cal-endar	QUARTERLY DIVIDENDS PAID <sup>B</sup>				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2012	.225	.225	.225	.225	.90
2013	.235	.235	.235	.235	.94
2014	.255	.255	.255	.255	1.02
2015	.275	.275	.275	.275	1.10
2016	.295	.295	.295		

**Management does not anticipate any changes to its 2016-2019 capital expenditure program.** Even with the new wind turbine proposal, it continues to forecast capex of about \$5 billion through 2019. That is because a number of planned projects are coming in below the original forecast, and several others have been shelved or delayed.

**The Marshalltown generating station is approximately 85% complete.** Total capital expenditures for this project are slated to be about \$700 million. The natural gas-fired facility is expected to go into service in the spring of 2017.

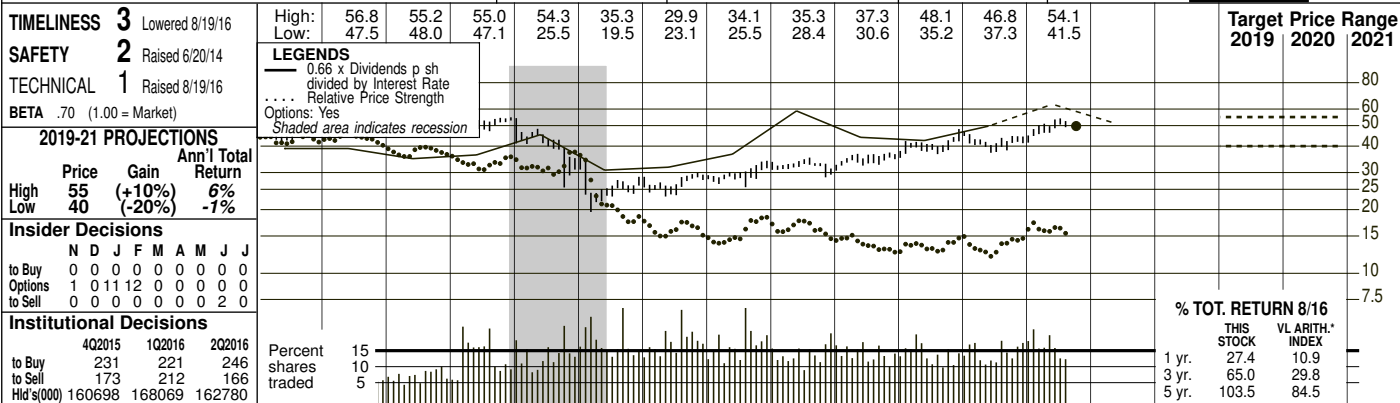
**The company is also making progress on the Riverside Energy Center expansion.** It recently selected AECOM to perform the engineering, procurement, and construction of the development. The \$700 million investment in Riverside is expected to supply energy to customers by early 2020.

**This issue is now ranked 1 (Highest) for Timeliness.** However, given the excessive valuation, total return potential over the 3- to 5-year haul is well below the Value Line median.

Daniel Henigson September 16, 2016



**AMEREN** NYSE-AEE **RECENT PRICE 49.84** **P/E RATIO 19.0** (Trailing: 19.4 Median: 15.0) **RELATIVE P/E RATIO 1.01** **DIV'D YLD 3.5%** **VALUE LINE**



2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	© VALUE LINE PUB. LLC	19-21
28.10	32.64	24.93	28.20	26.43	33.12	33.30	36.23	36.92	29.87	31.77	31.04	28.14	24.06	24.95	25.13	<b>24.95</b>	<b>25.75</b>	Revenues per sh	<b>28.25</b>
6.11	6.33	5.28	6.29	5.57	6.10	6.02	6.76	6.44	6.06	6.33	5.87	5.87	5.25	5.77	6.08	<b>6.60</b>	<b>7.05</b>	"Cash Flow" per sh	<b>8.50</b>
3.33	3.41	2.66	3.14	2.82	3.13	2.66	2.98	2.88	2.78	2.77	2.47	2.41	2.10	2.40	2.38	<b>2.60</b>	<b>2.75</b>	Earnings per sh <sup>A</sup>	<b>3.25</b>
2.54	2.54	2.54	2.54	2.54	2.54	2.54	2.54	2.54	1.54	1.54	1.56	1.60	1.60	1.61	1.66	<b>1.72</b>	<b>1.78</b>	Div'd Decl'd per sh <sup>B</sup>	<b>2.05</b>
6.77	7.99	5.11	4.19	4.13	4.63	4.99	6.96	9.75	7.51	4.66	4.50	5.49	5.87	7.66	8.12	<b>8.90</b>	<b>9.00</b>	Cap'l Spending per sh	<b>9.50</b>
23.30	24.26	24.93	26.73	29.71	31.09	31.86	32.41	32.80	33.08	32.15	32.64	27.27	26.97	27.67	28.63	<b>29.50</b>	<b>30.50</b>	Book Value per sh <sup>C</sup>	<b>34.00</b>
137.22	138.05	154.10	162.90	195.20	204.70	206.60	208.30	212.30	237.40	240.40	242.60	242.63	242.63	242.63	242.63	<b>242.63</b>	<b>242.63</b>	Common Shs Outst'g <sup>D</sup>	<b>242.63</b>
11.0	12.1	15.8	13.5	16.3	16.7	19.4	17.4	14.2	9.3	9.7	11.9	13.4	16.5	16.7	17.5	<b>17.5</b>	<b>17.5</b>	Avg Ann'l P/E Ratio	<b>15.0</b>
.72	.62	.86	.77	.86	.89	1.05	.92	.85	.62	.62	.75	.85	.93	.88	.88	<b>.88</b>	<b>.88</b>	Relative P/E Ratio	<b>.95</b>
6.9%	6.2%	6.1%	6.0%	5.5%	4.9%	4.9%	4.9%	6.2%	6.0%	5.8%	5.3%	5.0%	4.6%	4.0%	4.0%	<b>4.0%</b>	<b>4.0%</b>	Avg Ann'l Div'd Yield	<b>4.2%</b>

CAPITAL STRUCTURE as of 6/30/16		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Debt \$7814 mill. Due in 5 Yrs \$3342 mill.		6880.0	7546.0	7839.0	7090.0	7638.0	7531.0	6828.0	5838.0	6053.0	6098.0	6050	6250	6850	6750	6850	6750	6850	6850
LT Debt \$6605 mill. LT Interest \$328 mill.		547.0	629.0	615.0	624.0	669.0	602.0	589.0	518.0	593.0	585.0	635	675	6850	6750	6850	6750	6850	6850
(LT interest earned: 4.0x)		32.7%	33.5%	33.7%	34.7%	36.8%	37.3%	36.9%	37.5%	38.9%	38.3%	<b>35.0%</b>	<b>38.0%</b>	38.0%	38.3%	<b>35.0%</b>	<b>38.0%</b>	Income Tax Rate	<b>38.0%</b>
Leases, Uncapitalized Annual rentals \$13 mill.		.7%	.8%	4.6%	5.8%	7.8%	5.6%	6.1%	7.1%	5.7%	5.1%	<b>5.0%</b>	<b>4.0%</b>	4.0%	4.0%	<b>5.0%</b>	<b>4.0%</b>	AFUDC % to Net Profit	<b>4.0%</b>
Pension Assets-12/15 \$3653 mill. Oblig \$4197 mill.		43.8%	45.0%	47.8%	49.7%	48.2%	45.3%	49.5%	45.2%	47.2%	49.3%	<b>48.5%</b>	<b>48.5%</b>	48.5%	48.5%	<b>48.5%</b>	<b>48.5%</b>	Long-Term Debt Ratio	<b>49.5%</b>
Pfd Stock \$142 mill. Pfd Div'd \$6 mill.		54.6%	53.4%	50.8%	49.1%	50.9%	53.7%	49.4%	53.7%	51.7%	49.7%	<b>50.5%</b>	<b>50.5%</b>	50.5%	50.5%	<b>50.5%</b>	<b>50.5%</b>	Common Equity Ratio	<b>50.0%</b>
807,595 sh. \$3.50 to \$5.50 cum. (no par), \$100 stated val., redeem. \$102.176-\$110/sh.; 616,323 sh. 4.00% to 6.625%, \$100 par, redeem. \$100-\$104/sh.		12063	12654	13712	15991	15185	14738	13384	12190	12975	13968	<b>14200</b>	<b>14600</b>	14600	14600	<b>14600</b>	<b>14600</b>	Total Capital (\$mill)	<b>16500</b>
Common Stock 242,634,798 sh. as of 7/29/16		14286	15069	16567	17610	17853	18127	16096	16205	17424	18799	<b>20000</b>	<b>21125</b>	21125	21125	<b>21125</b>	<b>21125</b>	Net Plant (\$mill)	<b>24300</b>
MARKET CAP: \$12 billion (Large Cap)		5.7%	6.2%	5.7%	5.3%	6.0%	5.6%	6.0%	5.6%	5.8%	5.3%	<b>5.5%</b>	<b>6.0%</b>	6.0%	6.0%	<b>5.5%</b>	<b>6.0%</b>	Return on Total Cap'l	<b>6.0%</b>
ELECTRIC OPERATING STATISTICS		8.1%	9.0%	8.6%	7.8%	8.5%	7.5%	8.7%	7.7%	8.7%	8.3%	<b>8.5%</b>	<b>9.0%</b>	9.0%	9.0%	<b>8.5%</b>	<b>9.0%</b>	Return on Shr. Equity	<b>9.5%</b>
%		8.1%	9.2%	8.7%	7.8%	8.6%	7.5%	8.8%	7.8%	8.7%	8.3%	<b>9.0%</b>	<b>9.0%</b>	9.0%	9.0%	<b>9.0%</b>	<b>9.0%</b>	Return on Com Equity <sup>E</sup>	<b>9.5%</b>
%		.2%	1.3%	1.0%	3.5%	3.8%	2.8%	3.0%	1.9%	2.9%	2.5%	<b>3.0%</b>	<b>3.0%</b>	3.0%	3.0%	<b>3.0%</b>	<b>3.0%</b>	Retained to Com Eq	<b>3.5%</b>
%		97%	86%	88%	56%	56%	63%	66%	76%	67%	70%	<b>66%</b>	<b>65%</b>	65%	65%	<b>66%</b>	<b>65%</b>	All Div'ds to Net Prof	<b>63%</b>

	2013	2014	2015
% Change Retail Sales (KWH)	.5	-1	-1.1
Avg. Indust. Use (MWH)	NA	NA	NA
Avg. Indust. Revs. per KWH (c)	5.41	5.46	NA
Capacity at Peak (Mw)	NA	NA	NA
Peak Load, Summer (Mw)	NA	NA	NA
Annual Load Factor (%)	NA	NA	NA
% Change Customers (yr-end)	NA	NA	NA

ANNUAL RATES	Past 10 Yrs.	Past 5 Yrs.	Est'd '13-'15 of change (per sh)
Revenues	-1.5%	-5.5%	2.5%
"Cash Flow"	-5%	-2.0%	7.0%
Earnings	-2.5%	-4.0%	6.0%
Dividends	-4.5%	-3.0%	4.0%
Book Value	-5%	-3.0%	3.5%

Cal-endar	QUARTERLY REVENUES (\$ mill.)				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2013	1475	1403	1638	1322	5838.0
2014	1594	1419	1670	1370	6053.0
2015	1556	1401	1833	1308	6098.0
2016	1434	1427	1850	1339	6050
2017	1500	1450	1900	1400	6250

Cal-endar	EARNINGS PER SHARE <sup>A</sup>				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2013	.22	.44	1.25	.19	2.10
2014	.40	.62	1.20	.19	2.40
2015	.45	.40	1.41	.12	2.38
2016	.43	.61	1.40	.16	2.60
2017	.45	.60	1.50	.20	2.75

Cal-endar	QUARTERLY DIVIDENDS PAID <sup>B</sup>				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2012	.40	.40	.40	.40	1.60
2013	.40	.40	.40	.40	1.60
2014	.40	.40	.40	.41	1.61
2015	.41	.41	.41	.425	1.66
2016	.425	.425			

**AMEREN has filed an electric rate case in Missouri.** The utility is seeking an increase of \$206 million (7.8%), based on a return of 9.9% on a common-equity ratio of 51.8%. Besides asking for the recovery of capital expenditures and higher expenses, the application reflects lost volume from Ameren's historically largest customer, Noranda, which has idled production at its aluminum smelter. The company is also requesting a regulatory mechanism to track transmission costs. New tariffs are expected to go into effect in late May.

**The closing of the Noranda smelter is hurting Ameren's profits.** The utility estimates the negative effect at \$0.15 a share this year, and \$0.06-\$0.07 a share in the first half of 2017. Nevertheless, earnings are still likely to advance in 2016 because the second-quarter comparison was easy. In fact, we raised our share-earnings estimate by \$0.10, to \$2.60, because June-quarter profits (aided by favorable weather conditions) were better than we expected. Our revised estimate is within Ameren's targeted range of \$2.45-\$2.65, which management raised by a nickel upon releasing second-quarter results.

**Like other transmission owners in the Midwest, Ameren is awaiting orders from the Federal Energy Regulatory Commission (FERC).** Transmission users complained to FERC that allowed returns on equity for transmission owners are too high. Administrative law judges have recommended significant cuts in the allowed ROE, although FERC granted Ameren an additional half-percentage point "adder" for participating in a regional transmission organization. The company has taken a reserve of \$58 million for potential refunds of previously collected revenues. Despite all of this, electric transmission should be a source of profit growth for Ameren in the coming years.

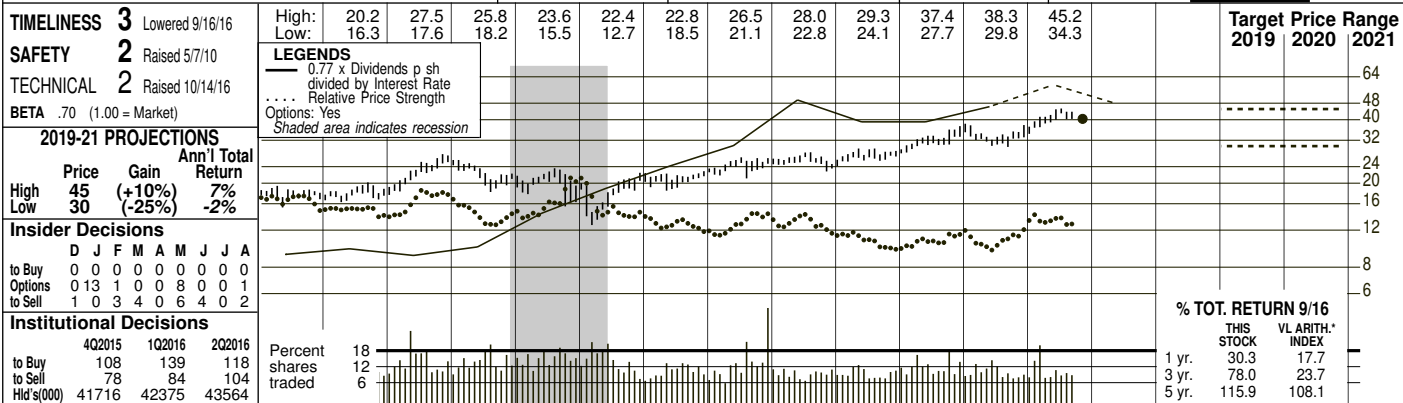
**We think the board of directors will raise the dividend in the fourth quarter.** This has occurred in each of the past two years. We estimate a boost of \$0.06 a share (3.5%) in the annual payout. **Ameren stock has a dividend yield that is about equal to the utility average.** With the recent quotation within our 2019-2021 Target Price Range, total return potential is just modest.

*Paul E. Debbas, CFA September 16, 2016*

(A) Diluted EPS. Excl. nonrecurr. gain (losses): '05, (11c); '10, (\$2.19); '11, (32c); '12, (\$6.42); gain (loss) from disc. ops.: '13, (92c); '15, 21c. '14 EPS don't add due to rounding. Next eps. report due early Nov. (B) Div'ds histor. paid in late Mar., June, Sept., & Dec. (C) Div'd reinvest. plan avail. (D) Incl. intang. In '15: \$7.39/sh. (E) Rate base: Orig. cost depr. Rate all'd on com. eq. in MO in '15: elec., 9.53%; in '11: gas, none specified; in IL in '14: elec., 8.7%; in '16: gas, 9.6%; earned on avg. com. eq., '15: 8.5%. Regulatory Climate: Below Avg.	Company's Financial Strength	A
	Stock's Price Stability	95
	Price Growth Persistence	30
	Earnings Predictability	85

# AVISTA CORP. NYSE-AVA

RECENT PRICE **40.37** P/E RATIO **19.6** (Trailing: 19.5; Median: 16.0) RELATIVE P/E RATIO **1.07** DIV'D YLD **3.5%** VALUE LINE



2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	© VALUE LINE PUB. LLC	19-21
167.59	126.17	20.41	23.24	23.76	27.98	28.68	26.80	30.77	27.58	27.29	27.73	25.86	26.94	23.66	23.83	<b>22.10</b>	<b>22.70</b>	Revenues per sh	24.75
3.31	2.71	2.19	2.63	2.35	2.72	4.27	2.93	3.98	4.45	3.62	3.78	3.70	4.36	4.36	4.92	<b>4.90</b>	<b>5.20</b>	"Cash Flow" per sh	6.00
1.76	1.20	.67	1.02	.73	.92	1.47	.72	1.36	1.58	1.65	1.72	1.32	1.85	1.84	1.89	<b>2.05</b>	<b>2.15</b>	Earnings per sh <sup>A</sup>	2.50
.48	.48	.48	.49	.52	.55	.57	.60	.69	.81	1.00	1.10	1.16	1.22	1.27	1.32	<b>1.37</b>	<b>1.42</b>	Div'd Decl'd per sh <sup>B</sup>	1.60
4.24	5.92	1.74	2.21	2.47	3.23	3.14	4.04	4.09	3.86	3.64	4.20	4.61	5.05	5.47	6.46	<b>6.25</b>	<b>6.65</b>	Cap'l Spending per sh	6.75
15.34	15.12	14.84	15.54	15.54	15.87	17.46	17.27	18.30	19.17	19.71	20.30	21.06	21.61	23.84	24.53	<b>25.55</b>	<b>26.25</b>	Book Value per sh <sup>C</sup>	28.50
47.21	47.63	48.04	48.34	48.47	48.59	52.51	52.91	54.49	54.84	57.12	58.42	59.81	60.08	62.24	62.31	<b>64.50</b>	<b>65.00</b>	Common Shs Outst'g <sup>D</sup>	66.50
13.6	13.7	19.3	13.8	24.4	19.4	15.4	30.9	15.0	11.4	12.7	14.1	19.3	14.6	17.3	17.6	<b>Bold figures are Value Line estimates</b>		Avg Ann'l P/E Ratio	15.0
.88	.70	1.05	.79	1.29	1.03	.83	1.64	.90	.76	.81	.88	1.23	.82	.91	.89			Relative P/E Ratio	.95
2.0%	2.9%	3.7%	3.5%	2.9%	3.0%	2.5%	2.7%	3.4%	4.5%	4.8%	4.5%	4.6%	4.5%	4.0%	4.0%			Avg Ann'l Div'd Yield	4.2%

**CAPITAL STRUCTURE as of 6/30/16**  
**Total Debt \$1784.4 mill. Due in 5 Yrs \$682.7 mill.**  
**LT Debt \$1531.2 mill. LT Interest \$77.0 mill.**  
 Incl. \$51.5 mill. debt to affiliated trusts. (LT interest earned: 3.5x)

**Pension Assets-12/15 \$517.2 mill. Oblig. \$613.5 mill.**

**Pfd Stock None**

**Common Stock 63,706,037 shs. as of 7/31/16**

**MARKET CAP: \$2.6 billion (Mid Cap)**

**ELECTRIC OPERATING STATISTICS**

	2013	2014	2015
% Change Retail Sales (KWH)	+4	+8	2.0
Avg. Indust. Use (MWH)	1428	1349	1339
Avg. Indust. Revs. per KWH (c)	5.74	5.93	6.17
Capacity at Peak (Mw)	2767	2594	NA
Peak Load, Winter (Mw)	2223	2223	NA
Annual Load Factor (%)	59.0	64.0	NA
% Change Customers (yr-end)	+1.1	+5.5	+1.3

**ANNUAL RATES**

	Past 10 Yrs.	Past 5 Yrs.	Est'd '13-'15
of change (per sh)			
Revenues	-	-3.0%	Nil
"Cash Flow"	6.0%	2.5%	4.5%
Earnings	7.5%	4.0%	5.0%
Dividends	9.5%	9.0%	4.0%
Book Value	4.0%	4.0%	3.5%

**QUARTERLY REVENUES (\$ mill.)**

Calendar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2013	482.9	352.0	335.9	447.7	1618.5
2014	446.6	312.6	301.6	411.8	1472.6
2015	446.5	337.3	313.7	387.3	1484.8
2016	418.2	318.8	<b>313</b>	<b>375</b>	<b>1425</b>
2017	<b>425</b>	<b>335</b>	<b>325</b>	<b>390</b>	<b>1475</b>

**EARNINGS PER SHARE <sup>A</sup>**

Calendar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2013	.71	.43	.19	.53	1.85
2014	.79	.43	.16	.48	1.84
2015	.74	.40	.21	.54	1.89
2016	.89	.43	.16	.57	<b>2.05</b>
2017	<b>.90</b>	<b>.48</b>	<b>.17</b>	<b>.60</b>	<b>2.15</b>

**QUARTERLY DIVIDENDS PAID <sup>B</sup>**

Calendar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2012	.29	.29	.29	.29	1.16
2013	.305	.305	.305	.305	1.22
2014	.3175	.3175	.3175	.3175	1.27
2015	.33	.33	.33	.33	1.32
2016	.3425	.3425	.3425		

**As usual, Avista is active in the regulatory arena.** The utility asked the Washington regulators for electric and gas rate increases of \$38.6 million (7.6%) and \$4.4 million (2.7%), respectively, at the start of 2017, followed by increases of \$10.3 million (1.6%) and \$0.9 million (1.0%) at the beginning of 2018. The petition is based on a 9.9% return on a 48.5% common-equity ratio. The staff of the Washington commission is recommending electric and gas hikes of \$25.6 million and \$2.1 million, respectively, based on a 9.2% return on a 48.5% common-equity ratio. Avista filed for a \$15.4 million rate boost in Idaho, based on a 9.9% return on a 50% common-equity ratio. New tariffs would take effect at the start of 2017. Alaska Electric Light & Power filed an application (the utility's first since 2010) that would raise revenues by \$5.7 million, based on a 13.8% return on a 58% common-equity ratio. (The requested ROE is high because of the utility's risks of operating in Juneau.) An interim increase might take effect at the start of November. Finally, the company's gas utility in Oregon will probably file a rate case this quarter.

**Frequent rate filings are necessary to deal with the effects of regulatory lag.** This has caused Avista to underearn its allowed ROE for many years. Even so, we think rate relief will help earnings advance this year and next. Our 2016 profit estimate is near the middle of the company's targeted range of \$1.96-\$2.16 a share. Management's goal for annual profit growth is 4%-5%.

**A court case is pending in Washington.** In early 2016, Avista's electric rates were cut by \$8.1 million, but the state attorney general's office said the reduction should have been more than twice as large. When this will be resolved is unknown.

**Finances are in good shape.** The fixed-charge coverage and common-equity ratio are healthy. Avista is ranked 'A' for Financial Strength.

**The dividend yield of this stock is close to the industry average.** With the recent quotation near the upper end of our 2019-2021 Target Price Range, total return potential over that time frame is unappealing.

*Paul E. Debbas, CFA*      *October 28, 2016*

(A) Dil. EPS. Excl. nonrec. gain (losses): '02, (9c); '03, (3c); '14, 9c; gains (losses) on disc. ops.: '01, (\$1.00); '02, 2c; '03, (10c); '14, \$1.17; '16, 8c. '13 & '14 EPS don't add due to rounding or change in shs. Next earnings report due early Nov. (B) Div'ds paid in mid-Mar., June, Sept. & Dec. Div'd reinv. avail. (C) Incl. def'd chgs. In '15: \$9.89/sh. (D) In mill. (E) Rate base: Net orig. cost. Rate all'd on com. eq. in WA in '16: 9.5%; in ID in '16: 9.5%; in OR in '15: 9.5%; earn. on avg. com. eq., '15: 8.2%. Regul. Clim.: WA, Avg.; ID, Above Avg.

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**Company's Financial Strength** A  
**Stock's Price Stability** 95  
**Price Growth Persistence** 60  
**Earnings Predictability** 80

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BLACK HILLS CORP. NYSE-BKH										RECENT PRICE	P/E RATIO		Trailing: 23.9 Median: 17.0		RELATIVE P/E RATIO	DIV/D YLD	VALUE LINE							
										58.91	21.0	1.14	3.1%											
TIMELINESS	3	Lowered 9/16/16		High:	44.6	37.9	45.4	44.0	28.0	34.5	34.8	37.0	55.1	62.1	53.4	64.6	Target Price Range							
SAFETY	2	Raised 5/1/15		Low:	29.2	32.5	35.4	21.7	14.5	25.7	25.8	30.3	36.9	47.1	36.8	44.7	2019	2020	2021					
TECHNICAL	3	Lowered 9/30/16		LEGENDS 0.82 x Dividends p sh divided by Interest Rate Relative Price Strength Options: Yes Shaded area indicates recession														128						
BETA	.90	(1.00 = Market)		2019-21 PROJECTIONS														96						
				Price	70	Gain	(+20%)	Ann'l Total Return	7%	-----														80
				High	55	Low	(-5%)	2%	-----														64	
				Insider Decisions														48						
				D J F M A M J J A														40						
				to Buy 0														32						
				Options 8 4 9 10 4 4 8 4 4 4														24						
				to Sell 0 0 0 0 0 0 0 0 0 0														16						
				Institutional Decisions														12						
				4Q2015 1Q2016 2Q2016														% TOT. RETURN 9/16						
				to Buy 138 144 135														1 yr. THIS STOCK	VL ARITH. INDEX					
				to Sell 76 92 99														3 yr. 34.9	23.7					
				Hld's(000) 44086 45952 46685														5 yr. 137.7	108.1					
				Percent shares traded																				
				18																				
				12																				
				6																				
© VALUE LINE PUB. LLC 19-21																								
2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Revenues per sh	33.50					
69.69	57.96	15.74	35.17	34.54	41.97	19.69	18.41	26.03	32.58	33.29	28.96	26.55	28.67	31.20	25.48	29.25	33.65	"Cash Flow" per sh	8.75					
3.68	5.27	4.93	4.26	4.46	4.81	5.04	5.29	2.95	5.41	4.88	4.01	5.59	5.93	6.25	5.67	6.60	7.85	Earnings per sh A	4.25					
2.37	3.42	2.33	1.84	1.74	2.11	2.21	2.68	.18	2.32	1.66	1.01	1.97	2.61	2.89	2.83	2.45	3.50	Div'd Decl'd per sh B	2.20					
1.08	1.12	1.16	1.20	1.24	1.28	1.32	1.37	1.40	1.42	1.44	1.46	1.48	1.52	1.56	1.62	1.68	1.84	Cap'l Spending per sh	6.50					
5.79	14.07	8.65	2.80	2.80	4.18	9.24	6.92	8.51	8.90	12.04	10.03	7.90	7.97	8.92	8.90	9.90	6.55	Book Value per sh C	39.00					
11.95	18.95	19.66	21.72	22.43	22.29	23.68	25.66	27.19	27.84	28.02	27.53	27.88	29.39	30.80	28.63	30.15	32.30	Common Shs Outst'g D	61.00					
23.30	26.89	26.93	32.30	32.48	33.16	33.37	37.80	38.64	38.97	39.27	43.92	44.21	44.50	44.67	51.19	53.00	54.25	Avg Ann'l P/E Ratio	15.0					
10.9	11.4	12.5	15.9	17.1	17.3	15.8	15.0	NMF	9.9	18.1	31.1	17.1	18.2	19.0	16.1	Bold figures are Value Line estimates		Relative P/E Ratio	.95					
.71	.58	.68	.91	.90	.92	.85	.80	NMF	.66	1.15	1.95	1.09	1.02	1.00	.82			Avg Ann'l Div'd Yield	3.5%					
4.2%	2.9%	4.0%	4.1%	4.2%	3.5%	3.8%	3.4%	4.2%	6.2%	4.8%	4.6%	4.4%	3.2%	2.8%	3.5%									
CAPITAL STRUCTURE as of 6/30/16				656.9 695.9 1005.8 1269.6 1307.3 1272.2 1173.9 1275.9 1393.6 1304.6 1550 1825														Revenues (\$mill)	2050					
Total Debt \$3227.1 mill. Due in 5 Yrs \$1582.3 mill.				74.0 100.1 6.8 89.7 64.6 40.4 86.9 115.8 128.8 128.3 130 190														Net Profit (\$mill)	255					
LT Debt \$2221.3 mill. LT Interest \$98.0 mill.				31.3% 31.3% 33.1% 30.7% 26.4% 31.1% 35.5% 34.7% 33.7% 35.8% 34.0% 30.0%														Income Tax Rate	30.0%					
(LT interest earned: 3.1x)				9.7% 14.8% 173.2% 20.1% 28.0% 65.0% 5.4% 2.4% 2.4% 2.7% 3.0% 2.0%														AFUDC % to Net Profit	1.0%					
Leases, Uncapitalized Annual rentals \$2.9 mill.				44.3% 36.8% 32.3% 48.4% 51.9% 51.4% 43.2% 51.6% 47.9% 56.0% 57.5% 59.0%														Long-Term Debt Ratio	48.5%					
Pension Assets-12/15 \$288.6 mill.				55.7% 63.2% 67.7% 51.6% 48.1% 48.6% 56.8% 48.4% 52.1% 44.0% 42.5% 41.0%														Common Equity Ratio	51.5%					
Oblig. \$356.6 mill.				1418.4 1534.2 1551.8 2100.7 2286.3 2489.7 2171.4 2704.7 2643.6 3332.7 3775 4280														Total Capital (\$mill)	4600					
Pfd Stock None				1646.4 1823.5 2022.2 2160.7 2495.4 2789.6 2742.7 2990.3 3239.4 3259.1 4590 4710														Net Plant (\$mill)	5075					
Common Stock 52,324,123 shs. as of 7/31/16				6.8% 7.9% 1.6% 5.9% 4.4% 3.3% 5.5% 5.5% 6.1% 4.9% 4.5% 5.5%														Return on Total Cap'l	6.5%					
MARKET CAP: \$3.1 billion (Mid Cap)				9.4% 10.3% .7% 8.3% 5.9% 3.3% 7.1% 8.9% 9.4% 8.8% 8.0% 11.0%														Return on Shr. Equity	10.5%					
ELECTRIC OPERATING STATISTICS				9.4% 10.3% .7% 8.3% 5.9% 3.3% 7.1% 8.9% 9.4% 8.8% 8.0% 11.0%														Return on Com Equity E	10.5%					
2013 2014 2015				3.8% 5.1% NMF 3.2% .7% NMF 1.8% 3.7% 4.3% 3.8% 2.5% 5.0%														Retained to Com Eq	5.0%					
% Change Retail Sales (KWH)				59% 50% NMF 62% 87% NMF 75% 58%														All Div'ds to Net Prof	53%					
Avg. Indust. Use (MWH)				740 100.1 6.8 89.7 64.6 40.4 86.9 115.8 128.8 128.3 130 190																				
Avg. Indust. Revs. per KWH (¢)				31.3% 31.3% 33.1% 30.7% 26.4% 31.1% 35.5% 34.7% 33.7% 35.8% 34.0% 30.0%																				
Capacity at Yearend (Mw)				9.7% 14.8% 173.2% 20.1% 28.0% 65.0% 5.4% 2.4% 2.4% 2.7% 3.0% 2.0%																				
Peak Load, Summer (Mw)				44.3% 36.8% 32.3% 48.4% 51.9% 51.4% 43.2% 51.6% 47.9% 56.0% 57.5% 59.0%																				
Annual Load Factor (%)				55.7% 63.2% 67.7% 51.6% 48.1% 48.6% 56.8% 48.4% 52.1% 44.0% 42.5% 41.0%																				
% Change Customers (yr-end)				1418.4 1534.2 1551.8 2100.7 2286.3 2489.7 2171.4 2704.7 2643.6 3332.7 3775 4280																				
Fixed Charge Cov. (%)				1646.4 1823.5 2022.2 2160.7 2495.4 2789.6 2742.7 2990.3 3239.4 3259.1 4590 4710																				
224 357 324																								
ANNUAL RATES Past 10 Yrs. Past 5 Yrs. Est'd '13-'15 of change (per sh)																								
Revenues				-2.5% -1.5% 3.0%																				
"Cash Flow"				3.0% 6.0% 6.5%																				
Earnings				4.0% 15.0% 7.5%																				
Dividends				2.5% 2.0% 6.0%																				
Book Value				3.0% 1.5% 4.5%																				
Cal-endar				QUARTERLY REVENUES (\$ mill.)				Full Year																
Mar.31 Jun.30 Sep.30 Dec.31				Mar.31 Jun.30 Sep.30 Dec.31				Mar.31 Jun.30 Sep.30 Dec.31																
2013				380.7 279.8 259.9 355.5				1275.9																
2014				460.2 283.2 272.1 378.1				1393.6																
2015				442.0 272.2 272.1 318.3				1304.6																
2016				450.0 325.4 324.6 450				1550																
2017				650 350 350 475				1825																
Cal-endar				EARNINGS PER SHARE A				Full Year																
Mar.31 Jun.30 Sep.30 Dec.31				Mar.31 Jun.30 Sep.30 Dec.31				Mar.31 Jun.30 Sep.30 Dec.31																
2013				.97 .69 .52 .43				2.61																
2014				1.08 .44 .60 .76				2.89																
2015				1.07 .55 .58 .63				2.83																
2016				.94 .31 .50 .70				2.45																
2017				1.30 .60 .70 .90				3.50																
Cal-endar				QUARTERLY DIVIDENDS PAID B				Full Year																
Mar.31 Jun.30 Sep.30 Dec.31				Mar.31 Jun.30 Sep.30 Dec.31				Mar.31 Jun.30 Sep.30 Dec.31																
2012				.37 .37 .37 .37				1.48																
2013				.38 .38 .38 .38				1.52																
2014				.39 .39 .39 .39				1.56																
2015				.405 .405 .405 .405				1.62																
2016				.42 .42 .42																				

**Black Hills is still integrating Source-Gas, which it bought in February.** The cost of the deal was \$1.89 billion, including the assumption of \$760 million of Source-Gas debt. Black Hills has completed the integration of the accounting function, but still has more to do in customer information, billing, and payment systems; human resources; operations; and rebranding. The company booked merger-related costs of \$0.38 a share in the first half of 2016, which are included in our earnings presentation. Additional acquisition-related expenses are likely in the third and fourth quarters of 2016, which is why profits ought to decline this year.

**Earnings stand to be much higher in 2017.** The integration process should be largely (if not entirely) complete by year-end, so any merger-related costs that Black Hills incurs next year will almost certainly be much lower. In addition, Black Hills will own SourceGas for the entire seasonally strong first quarter. Our bottom-line estimate is within the company's guidance of \$3.35-\$3.65 a share. Note that we also expect a larger-than-usual dividend hike in 2017.

**Black Hills wants to reduce its presence in the oil and gas exploration and production business.** Weak commodity prices have hurt this operation, and have forced the company to take nonrecurring charges to write down its reserves. Even so, Black Hills will retain some gas reserves in an attempt to place them in the rate base. The utility needs to demonstrate to state commissions that such a move would benefit customers by helping to stabilize gas prices.

**A rate case is pending in Colorado.** Black Hills filed for an electric increase of \$8.9 million, based on a 9.83% return on a common-equity ratio of 50.92%. The utility wants to place a \$65 million, 40-megawatt gas-fired unit in the rate base. The facility is under construction and should be in operation by yearend.

**This stock has a dividend yield that is below the utility mean.** Although we project solid earnings and dividend growth through 2019-2021, total return potential is just average because the recent quotation is within our 3- to 5-year Target Price Range.

Paul E. Debbas, CFA October 28, 2016

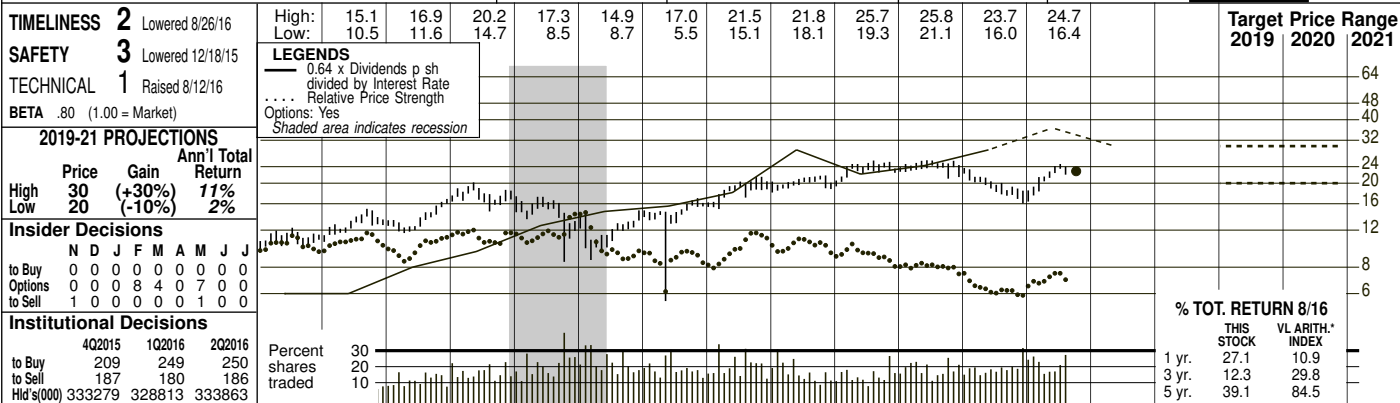
(A) Dil. EPS. Excl. nonrec. gains (losses): '05, (99¢); '08, (\$1.55); '09, (28¢); '10, 10¢; '12, 4¢; '15, (\$3.54); '16, (47¢); gains (losses) on disc. ops.: '05, (7¢); '06, 21¢; '07, (4¢); '08, \$4.12; '09, 7¢; '11, 23¢; '12, (16¢). '14 EPS don't add due to rounding. Next egs. due early Nov. (B) Div'ds paid early Mar., Jun., Sept., & Dec. Div'd reinv. plan avail. (C) Incl. def'd chgs. In '15: \$10.52/sh. (D) In mill. (E) Rate base: Net orig. cost. Rate all'd on com. eq. in SD in '15: none specified; in CO in '15: 9.83%; earned on avg. com. eq.; '15: 9.0%. Reg. Climate: Avg.

Company's Financial Strength	A
Stock's Price Stability	85
Price Growth Persistence	70
Earnings Predictability	50

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**CENTERPOINT EN'RGY** NYSE-CNP **RECENT PRICE 22.80** **P/E RATIO 22.8** (Trailing: 24.0 Median: 15.0) **RELATIVE P/E RATIO 1.21** **DIV'D YLD 4.6%** **VALUE LINE**



2000	2001A	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	© VALUE LINE PUB. LLC	19-21
--	35.18	26.40	31.87	27.63	31.33	29.71	29.82	32.71	21.14	20.69	19.83	17.43	18.90	21.51	17.18	<b>16.25</b>	<b>16.80</b>	Revenues per sh	18.50
--	3.69	3.34	3.98	2.56	2.72	3.47	3.39	3.42	2.94	3.14	3.43	3.89	3.54	3.85	3.40	<b>3.75</b>	<b>3.40</b>	"Cash Flow" per sh	4.25
--	1.54	1.29	1.37	.61	.67	1.33	1.17	1.30	1.01	1.07	1.27	1.35	1.24	1.42	1.08	<b>1.00</b>	<b>1.25</b>	Earnings per sh <sup>B</sup>	1.40
--	1.50	1.07	.40	.40	.40	.60	.68	.73	.76	.78	.79	.81	.83	.95	.99	<b>1.03</b>	<b>1.07</b>	Div'd Decl'd per sh <sup>C</sup>	1.19
--	6.78	2.85	2.11	1.72	2.23	3.21	3.45	2.95	2.96	3.55	3.06	2.84	3.00	3.20	3.68	<b>3.15</b>	<b>3.05</b>	Cap'l Spending per sh	2.75
--	22.24	4.74	5.75	3.59	4.18	4.96	5.61	5.89	6.74	7.53	9.91	10.06	10.09	10.60	8.05	<b>8.00</b>	<b>8.15</b>	Book Value per sh <sup>D</sup>	9.00
--	302.94	300.10	306.30	308.05	310.33	313.65	322.72	346.09	391.75	424.70	426.03	427.44	429.00	429.00	430.00	<b>431.00</b>	<b>431.00</b>	Common Shs Outst'g <sup>E</sup>	435.00
--	--	5.6	6.0	17.8	19.1	10.3	15.0	11.3	11.8	13.8	14.6	14.8	18.7	17.0	18.1	<i>Bold figures are Value Line estimates</i>		Avg Ann'l P/E Ratio	18.0
--	--	.31	.34	.94	1.02	.56	.80	.68	.79	.88	.92	.94	1.05	.89	.91			Relative P/E Ratio	1.15
--	--	14.8%	4.8%	3.7%	3.1%	4.4%	3.9%	5.0%	6.4%	5.3%	4.3%	4.0%	3.6%	3.9%	5.1%			Avg Ann'l Div'd Yield	4.7%

2000	2001A	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	© VALUE LINE PUB. LLC	19-21
9319.0	9623.0	11322	8281.0	8785.0	8450.0	7452.0	8106.0	9226.0	7386.0	<b>7000</b>	<b>7250</b>	Revenues (\$mill)	8100						
432.0	399.0	447.0	372.0	442.0	546.0	581.0	536.0	611.0	465.0	<b>430</b>	<b>535</b>	Net Profit (\$mill)	605						
12.6%	32.8%	38.3%	32.1%	37.3%	33.6%	33.4%	31.4%	31.0%	35.1%	<b>37.0%</b>	<b>36.0%</b>	Income Tax Rate	36.0%						
2.3%	5.5%	2.7%	1.3%	2.7%	1.6%	2.6%	3.5%	4.1%	4.7%	<b>6.0%</b>	<b>5.0%</b>	AFUDC % to Net Profit	4.0%						
83.4%	82.2%	83.3%	77.6%	73.8%	67.2%	66.0%	64.4%	63.8%	69.5%	<b>70.0%</b>	<b>69.5%</b>	Long-Term Debt Ratio	68.5%						
16.6%	17.8%	16.7%	22.4%	26.2%	32.8%	34.0%	35.6%	36.2%	30.5%	<b>30.0%</b>	<b>30.5%</b>	Common Equity Ratio	31.5%						
9358.0	10174	12218	11758	12199	12863	12658	12146	12557	11362	<b>11500</b>	<b>11500</b>	Total Capital (\$mill)	12300						
9204.0	9740.0	10296	10788	11732	12402	13597	9593.0	10502	11537	<b>12100</b>	<b>12600</b>	Net Plant (\$mill)	13200						
7.8%	6.9%	6.0%	5.8%	6.1%	6.4%	6.8%	6.3%	6.7%	6.1%	<b>5.5%</b>	<b>6.5%</b>	Return on Total Cap'l	6.5%						
27.8%	22.0%	21.9%	14.1%	13.8%	12.9%	13.5%	12.4%	13.4%	13.4%	<b>12.5%</b>	<b>15.5%</b>	Return on Shr. Equity	15.5%						
27.8%	22.0%	21.9%	14.1%	13.8%	12.9%	13.5%	12.4%	13.4%	13.4%	<b>12.5%</b>	<b>15.5%</b>	Return on Com Equity <sup>F</sup>	15.5%						
15.7%	10.0%	9.9%	3.6%	3.8%	5.0%	5.5%	4.2%	4.5%	1.1%	<b>NMF</b>	<b>2.0%</b>	Retained to Com Eq	2.5%						
43%	55%	55%	74%	72%	62%	60%	66%	67%	92%	<b>NMF</b>	<b>86%</b>	All Div's to Net Prof	85%						

**CAPITAL STRUCTURE as of 6/30/16**  
 Total Debt \$8560 mill. Due in 5 Yrs \$5015 mill.  
 LT Debt \$7780 mill. LT Interest \$387 mill.  
 Incl. \$2059 mill. securitized transition & system restoration bonds.  
 (LT interest earned: 2.4x)  
 Leases, Uncapitalized Annual rentals \$5 mill.  
 Pension Assets-12/15 \$1679 mill. Oblig \$2193 mill.

**Pfd Stock None**  
 Common Stock 430,681,744 shs. as of 7/29/16  
 MARKET CAP: \$9.8 billion (Large Cap)

**ELECTRIC OPERATING STATISTICS**

	2013	2014	2015
% Change Retail Sales (KWH)	+1.8	+2.3	+2.9
Avg. Indust. Use (MWH)	NA	NA	NA
Avg. Indust. Revs. per KWH (c)	NA	NA	NA
Capacity at Peak (Mw)	NA	NA	NA
Peak Load, Summer (Mw)	NA	NA	NA
Annual Load Factor (%)	NA	NA	NA
% Change Customers (avg.)	+2.0	+2.4	+2.1

**BUSINESS:** CenterPoint Energy, Inc. is a holding company for Houston Electric, which serves 2.4 million customers in Houston and environs, and gas utilities with 3.3 million customers in Texas, Minnesota, Arkansas, Louisiana, and Oklahoma. Owns 55.4% of Enable Midstream Partners. Discontinued Texas Genco Holdings in '04. Electric revenue breakdown: residential, 52%; commercial, 31%; industrial, 15%; other, 2%. Does not own generating assets. Gas costs: 42% of revenues. '15 depreciation rate: 6.0%. Has 7,500 employees. Chairman: Milton Carroll. President & CEO: Scott M. Prochazka. Incorporated: Texas. Address: 1111 Louisiana, P.O. Box 4567, Houston, Texas 77210-4567. Telephone: 713-207-1111. Internet: www.centerpointenergy.com.

**CenterPoint Energy might sell its 55.4% interest in Enable Midstream Partners.** The company's stake in Enable, a natural gas master limited partnership, has been a disappointment since oil prices began their slide in mid-2014. Last year, CenterPoint took a large nonrecurring charge to write down its investment in Enable. One of its partners, OGE Energy, has exercised its right of first offer and (with a partner that would assume almost all of CenterPoint's stake) made an undisclosed bid. CenterPoint is deciding whether to accept the offer or solicit other bids. The outcome of this matter might not become known until 2017. Note that a straight cash sale would result in a large tax bill for CenterPoint.

**CenterPoint considered another significant change, but rejected it.** It contemplated the formation of a real estate investment trust, but decided against this move due to the limited potential and associated risks.

**Our earnings estimates require an explanation.** June-quarter results dipped into the red due to a mark-to-market charge of \$0.17 a share associated with a

CenterPoint security. We have cut our 2016 estimate by \$0.20, to \$1.00. The company will also record mark-to-market items in future quarters, although we will not try to estimate these because they are impossible to predict. Note that we will not reflect a sale of the Enable interest in our estimates and projections unless such a move occurs.

**CenterPoint received a gas rate hike in Minnesota, and is awaiting an order in Arkansas.** The utility asked the Minnesota commission for \$54.1 million, and was granted \$27.5 million, based on a 9.49% return on equity. CenterPoint reached a nonunanimous settlement in Arkansas calling for an increase of \$14.5 million, based on a 9.5% ROE. A ruling is expected soon.

**This stock is timely, and has a yield that is more than a percentage point above the utility mean.** Despite the high payout ratio, CenterPoint can maintain (and increase) the dividend thanks to the distributions from its interest in Enable—for now. Total return potential to 2019-2021 is spectacular, however.

*Paul E. Debbas, CFA September 16, 2016*

Cal-endar	QUARTERLY REVENUES (\$ mill.)	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	
2013	2388 1894 1640 2184	8106.0
2014	3163 1884 1807 2372	9226.0
2015	2433 1532 1630 1791	7386.0
2016	1984 1574 1625 1817	7000
2017	2150 1600 1650 1850	7250

Cal-endar	EARNINGS PER SHARE <sup>B</sup>	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	
2013	.34 .29 .35 .26	1.24
2014	.43 .25 .33 .41	1.42
2015	.30 .18 .34 .26	1.08
2016	.36 d.01 .37 .28	1.00
2017	.36 .22 .37 .30	1.25

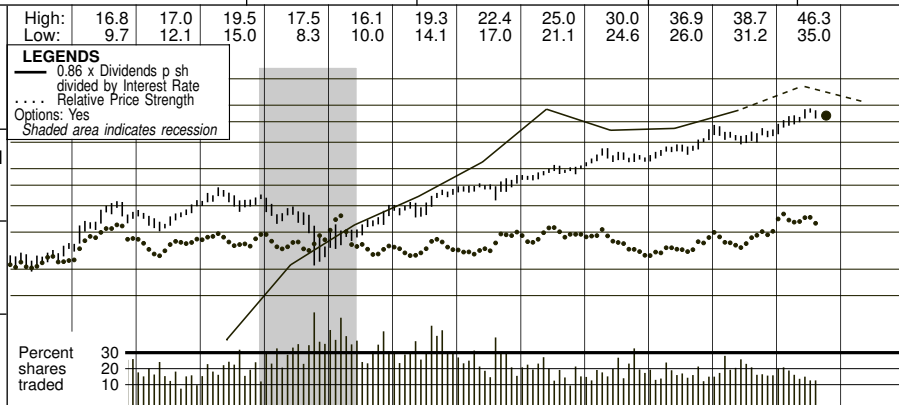
Cal-endar	QUARTERLY DIVIDENDS PAID <sup>C</sup>	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	
2012	.2025 .2025 .2025 .2025	.81
2013	.2075 .2075 .2075 .2075	.83
2014	.2375 .2375 .2375 .2375	.95
2015	.2475 .2475 .2475 .2475	.99
2016	.2575 .2575 .2575	

(A) Pro forma data. (B) Diluted EPS. Excl. extraordinary gains (losses): '04, (\$2.72); '05, 9c; '11, \$1.89; '12, (38c) net; '13, (52c); '15, (\$2.69); losses on discontinued ops.: '04, 37c; '05, 1c. Next earnings report due early Nov. (C) Div'ds historically paid in early Mar., June, Sept. & Dec. ■ Div'd reinvestment plan avail. (D) Incl. intang. In '15: \$9.23/sh. (E) In mill. (F) Rate base: Net original cost. Rate allowed on com. eq. (elec.) in '11: 10%; (gas): 9.45%-11.25%; earned on avg. com. eq., '15: 10.1%. Regulatory Climate: Average.

# CMS ENERGY CORP. NYSE-CMS

RECENT PRICE **42.80** P/E RATIO **20.3** (Trailing: 21.9; Median: 16.0) RELATIVE P/E RATIO **1.07** DIV'D YLD **3.0%** **VALUE LINE**

**TIMELINESS 3** Lowered 9/2/16  
**SAFETY 2** Raised 3/21/14  
**TECHNICAL 1** Raised 9/9/16  
 BETA .65 (1.00 = Market)



**2019-21 PROJECTIONS**

High	Price	Gain	Ann'l Total Return
Low	45	(+5%)	5%
	30	(-30%)	-4%

**Insider Decisions**

	N	D	J	F	M	A	M	J	J
to Buy	1	0	0	0	1	0	0	0	0
Options	0	0	9	0	0	0	10	0	1
to Sell	2	0	0	1	3	0	4	0	0

**Institutional Decisions**

	4Q2015	1Q2016	2Q2016
to Buy	206	233	236
to Sell	193	205	201
Hlds(000)	252257	250368	251054

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	© VALUE LINE PUB. LLC	19-21
74.24	72.16	60.28	34.21	28.06	28.52	30.57	28.95	30.13	27.23	25.77	25.59	23.90	24.68	26.09	23.29	22.15	22.70	Revenues per sh	24.75
7.61	5.24	d.09	2.39	2.87	3.43	3.22	3.08	3.88	3.47	3.70	3.65	3.82	4.06	4.22	4.59	4.80	5.30	"Cash Flow" per sh	6.50
2.53	1.27	d2.99	d.29	.74	1.10	.64	.64	1.23	.93	1.33	1.45	1.53	1.66	1.74	1.89	1.95	2.15	Earnings per sh <sup>A</sup>	2.50
1.46	1.46	1.09	--	--	--	--	.20	.36	.50	.66	.84	.96	1.02	1.08	1.16	1.24	1.32	Div'd Decl'd per sh <sup>B</sup>	1.60
8.51	9.49	5.18	3.32	2.69	2.69	3.01	5.61	3.50	3.59	3.29	3.47	4.65	4.98	5.73	5.64	6.00	6.20	Cap'l Spending per sh	5.75
19.48	14.21	7.86	9.84	10.63	10.53	10.03	9.46	10.88	11.42	11.19	11.92	12.09	12.98	13.34	14.21	15.00	16.00	Book Value per sh <sup>C</sup>	19.25
121.20	132.99	144.10	161.13	195.00	220.50	222.78	225.15	226.41	227.89	249.60	254.10	264.10	266.10	275.20	277.16	280.00	282.00	Common Shs Outst'g <sup>D</sup>	288.00
9.6	20.8	--	--	12.4	12.6	22.2	26.8	10.9	13.6	12.5	13.6	15.1	16.3	17.3	18.3	18.3	18.3	Avg Ann'l P/E Ratio	15.0
.62	1.07	--	--	.66	.67	1.20	1.42	.66	.91	.80	.85	.96	.92	.91	.93	.91	.93	Relative P/E Ratio	.95
6.0%	5.5%	7.5%	--	--	--	--	1.2%	2.7%	4.0%	4.0%	4.3%	4.2%	3.8%	3.6%	3.4%	3.4%	3.4%	Avg Ann'l Div'd Yield	4.2%

**CAPITAL STRUCTURE as of 6/30/16**  
 Total Debt \$9514 mill. Due in 5 Yrs \$4793 mill.  
 LT Debt \$8596 mill. LT Interest \$388 mill.  
 Incl. \$110 mill. capitalized leases.  
 (LT interest earned: 3.0x)  
**Leases, Uncapitalized** Annual rentals \$20 mill.  
**Pension Assets-12/15** \$2013 mill.  
**Oblig** \$2403 mill.  
**Pfd Stock** \$37 mill. **Pfd Div'd** \$2 mill.  
 Incl. 373,148 shs. \$4.50 \$100 par, cum., callable at \$110.00.  
**Common Stock** 279,300,000 shs.

**MARKET CAP: \$12 billion (Large Cap)**

6810.0	6519.0	6821.0	6205.0	6432.0	6503.0	6312.0	6566.0	7179.0	6456.0	6200	6400	Revenues (\$mill)	7150
158.0	168.0	300.0	231.0	356.0	384.0	413.0	454.0	479.0	525.0	540	615	Net Profit (\$mill)	740
--	37.6%	31.6%	34.6%	38.1%	36.8%	39.4%	39.9%	34.3%	34.0%	38.5%	38.5%	Income Tax Rate	38.5%
6.3%	3.6%	1.3%	13.0%	2.2%	2.6%	2.9%	2.0%	2.3%	2.7%	3.0%	2.0%	AFUDC % to Net Profit	2.0%
71.7%	70.5%	69.4%	67.9%	70.1%	66.9%	67.9%	67.5%	68.7%	68.3%	67.5%	67.0%	Long-Term Debt Ratio	65.5%
24.9%	25.9%	27.4%	29.0%	29.5%	32.6%	31.6%	32.2%	31.0%	31.4%	32.0%	33.0%	Common Equity Ratio	34.5%
8961.0	8212.0	8993.0	8977.0	9473.0	9279.0	10101	10730	11846	12534	13075	13725	Total Capital (\$mill)	16100
7976.0	8728.0	9190.0	9682.0	10069	10633	11551	12246	13412	14705	15575	16450	Net Plant (\$mill)	18600
4.5%	4.5%	5.4%	4.7%	5.8%	6.3%	5.9%	6.0%	5.7%	5.7%	5.5%	6.0%	Return on Total Cap'l	6.0%
6.2%	6.9%	10.9%	8.0%	12.5%	12.5%	12.8%	13.0%	12.9%	13.2%	12.5%	13.5%	Return on Shr. Equity	13.5%
6.4%	7.2%	11.7%	8.5%	12.5%	12.6%	12.9%	13.1%	13.0%	13.3%	13.0%	13.5%	Return on Com Equity <sup>E</sup>	13.5%
6.4%	5.1%	8.4%	4.1%	6.9%	5.6%	5.0%	5.2%	5.0%	5.2%	4.5%	5.5%	Retained to Com Eq	5.0%
10%	35%	31%	54%	46%	55%	61%	60%	62%	61%	64%	60%	All Div'ds to Net Prof	62%

**ELECTRIC OPERATING STATISTICS**

	2013	2014	2015
% Change Retail Sales (KWH)	3.1	+1.9	-8
Avg. Indust. Use (MWH)	NMF	NMF	5922
Avg. Indust. Revs. per KWH (c)	8.93	8.79	8.07
Capacity at Peak (Mw)	8603	8776	8762
Peak Load, Summer (Mw)	8509	7498	7812
Annual Load Factor (%)	50.0	59.7	56.8
% Change Customers (yr-end)	+1	--	+6

Fixed Charge Cov. (%) 282 278 288

**ANNUAL RATES**

	Past 10 Yrs.	Past 5 Yrs.	Est'd '13-'15
of change (per sh)			
Revenues	-2.0%	-2.5%	Nil
"Cash Flow"	4.0%	3.0%	7.0%
Earnings	13.0%	8.5%	6.0%
Dividends	--	16.5%	6.5%
Book Value	2.5%	4.0%	6.0%

**BUSINESS:** CMS Energy Corporation is a holding company for Consumers Energy, which supplies electricity and gas to lower Michigan (excluding Detroit). Has 1.8 million electric, 1.7 million gas customers. Has 1,034 megawatts of nonregulated generating capacity. Sold Palisades nuclear plant in '07. Electric revenue breakdown: residential, 43%; commercial, 34%; industrial, 16%; other, 7%. Generating sources: coal, 44%; gas, 10%; other, 3%; purchased, 43%. Fuel costs: 47% of revenues. '15 reported deprec. rates: 3.5% electric, 2.8% gas, 8.7% other. Has 7,400 employees. Chairman: John G. Russell. President & CEO: Patti Poppe. Incorporated: Michigan. Address: One Energy Plaza, Jackson, Michigan 49201. Tel.: 517-788-0550. Internet: www.cmsenergy.com.

**CMS Energy's utility subsidiary has electric and gas rate cases pending.** On the electric side, Consumers Energy is seeking a tariff increase of \$225 million, based on an allowed return on equity of 10.7%. At the start of September, the utility self-implemented a \$170 million hike, which it may do under Michigan regulatory law. The staff of the Michigan Public Service Commission (MPSC) is proposing a \$92 million increase, based on a 10% ROE. The MPSC's order is due in late February. On the gas side, Consumers Energy filed for an increase of \$90 million, based on a 10.6% ROE. The utility will self-implement a raise at the beginning of February, with the MPSC's decision due in late July. Rate cases are going to be put forth regularly in the coming years, mainly to place new capital investment in the rate base.

include it, whatever the amount of the charge turns out to be. **Earnings should be much improved in 2017.** We assume no additional charges for a workforce reduction. Consumers Energy should benefit from rate relief, assuming reasonable regulatory treatment from the MPSC. Our 2017 profit forecast remains at \$2.15 a share. **There is potential upside to CMS' earnings growth goal of 6%-8% annually.** Proposed legislation in Michigan, if enacted, would likely create additional investment opportunities for Consumers Energy. This is not reflected in our estimates and projections. CMS also has some non-regulated generating capacity that would increase its contribution to corporate profits if wholesale power prices rise. **This stock has a dividend yield that is slightly below average, by utility standards.** Like many utility issues, the recent quotation is near the upper end of our 2019-2021 Target Price Range. Accordingly, total return potential is negligible, even though we project solid dividend growth through the end of the decade. *Paul E. Debbas, CFA September 16, 2016*

**QUARTERLY REVENUES (\$ mill.)**

Calendar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2013	1979	1406	1445	1736	6566.0
2014	2523	1468	1430	1758	7179.0
2015	2111	1350	1486	1509	6456.0
2016	1801	1371	1478	1550	6200
2017	1950	1350	1500	1600	6400

**EARNINGS PER SHARE <sup>A</sup>**

Calendar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2013	.53	.29	.46	.37	1.66
2014	.75	.30	.34	.35	1.74
2015	.73	.25	.53	.38	1.89
2016	.59	.45	.50	.41	1.95
2017	.75	.35	.60	.45	2.15

**QUARTERLY DIVIDENDS PAID <sup>B</sup>**

Calendar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2012	.24	.24	.24	.24	.96
2013	.255	.255	.255	.255	1.02
2014	.27	.27	.27	.27	1.08
2015	.29	.29	.29	.29	1.16
2016	.31	.31	.31		

**We have trimmed our 2016 earnings estimate by \$0.05 a share.** In the current quarter, CMS expects to record an undisclosed charge for an early retirement program. Management will exclude this from its typically narrow earnings guidance of \$1.99-\$2.02 a share, but we will in-

(A) Diluted EPS. Excl. nonrec. gains (losses): '05, (\$1.61); '06, (\$1.08); '07, (\$1.26); '08, (7c); '10, 3c; '11, 12c; '12, (14c); gains (losses) on disc. ops.: '05, 7c; '06, 3c; '07, (40c); '09, 8c; '10, (8c); '11, 1c; '12, 3c. '13 EPS don't add due to rounding. Next earnings report due late Oct. (B) Div'ds historically paid late Feb., May, Aug., & Nov. ■ Div'd reinvestment plan avail. (C) Incl. intang. In '15: \$6.64/sh. (D) In mill. (E) Rate base: Net orig. cost. Rate allowed on com. eq. in '15: 10.3%; earned on avg. com. eq., '15: 13.7%. Regulatory Climate: Average.

Company's Financial Strength		B++
Stock's Price Stability	Price Growth Persistence	100
Earnings Predictability		80

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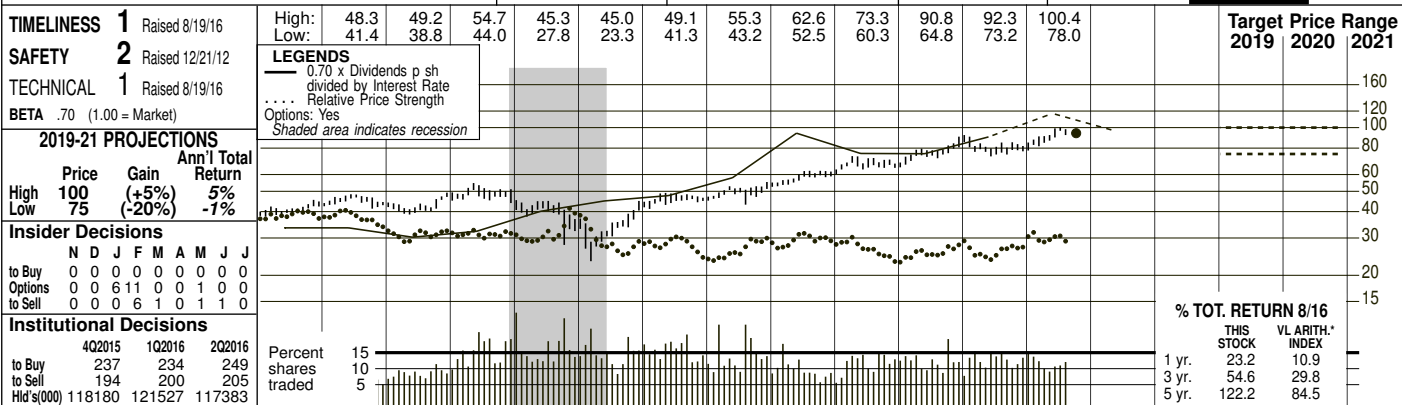






# DTE ENERGY CO. NYSE-DTE

RECENT PRICE **94.16** P/E RATIO **18.7** (Trailing: 20.8 Median: 16.0) RELATIVE P/E RATIO **0.99** DIV'D YLD **3.3%** VALUE LINE



2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	© VALUE LINE PUB. LLC	19-21
39.24	48.71	40.30	41.76	40.84	50.74	50.93	54.28	57.23	48.45	50.51	52.57	51.01	54.56	69.50	57.60	<b>56.80</b>	<b>59.85</b>	Revenues per sh	<b>68.50</b>
8.59	6.98	8.31	6.95	6.81	8.14	8.19	8.48	8.26	9.38	9.78	9.57	9.77	10.13	11.85	9.44	<b>10.30</b>	<b>11.25</b>	"Cash Flow" per sh	<b>13.75</b>
3.27	2.15	3.83	2.85	2.55	3.27	2.45	2.66	2.73	3.24	3.74	3.67	3.88	3.76	5.10	4.45	<b>4.80</b>	<b>5.30</b>	Earnings per sh <sup>A</sup>	<b>6.25</b>
2.06	2.06	2.06	2.06	2.06	2.06	2.08	2.12	2.12	2.12	2.18	2.32	2.42	2.59	2.69	2.84	<b>3.00</b>	<b>3.16</b>	Div'd Decl'd per sh <sup>B</sup>	<b>3.70</b>
5.25	6.80	5.88	4.45	5.19	5.99	7.92	7.96	8.42	6.26	6.49	8.77	10.56	10.59	11.58	11.26	<b>14.50</b>	<b>14.70</b>	Cap'l Spending per sh	<b>13.50</b>
28.15	28.48	27.26	31.36	31.85	32.44	33.02	35.86	36.77	37.96	39.67	41.41	42.78	44.73	47.05	48.88	<b>50.70</b>	<b>53.10</b>	Book Value per sh <sup>C</sup>	<b>61.00</b>
142.65	161.13	167.46	168.61	174.21	177.81	177.14	163.23	163.02	165.40	169.43	169.25	172.35	177.09	176.99	179.47	<b>179.50</b>	<b>180.50</b>	Common Shs Outst'g <sup>D</sup>	<b>184.00</b>
10.3	19.3	11.3	13.7	16.0	13.8	17.4	18.3	14.8	10.4	12.3	13.5	14.9	17.9	14.9	18.1	<b>14.50</b>	<b>14.70</b>	Avg Ann'l P/E Ratio	<b>14.0</b>
.67	.99	.62	.78	.85	.73	.94	.97	.89	.69	.78	.85	.95	1.01	.78	.91	<b>0.95</b>	<b>1.00</b>	Relative P/E Ratio	<b>.90</b>
6.1%	5.0%	4.8%	5.3%	5.0%	4.6%	4.9%	4.4%	5.2%	6.3%	4.8%	4.7%	4.2%	3.8%	3.5%	3.5%	<b>3.5%</b>	<b>3.5%</b>	Avg Ann'l Div'd Yield	<b>4.2%</b>

**CAPITAL STRUCTURE as of 6/30/16**  
 Total Debt \$9683 mill. Due in 5 Yrs \$2204 mill.  
 LT Debt \$9343 mill. LT Interest \$434 mill.  
 Incl. \$12 mill. capitalized leases and \$780 mill. Trust Preferred Securities. (LT interest earned: 3.7x)

**Leases, Uncapitalized** Annual rentals \$37 mill.  
**Pension Assets-12/15** \$3832 mill. Oblig \$4971 mill.

**Pfd Stock None**  
**Common Stock** 179,435,004 shs.

**MARKET CAP: \$17 billion (Large Cap)**

9022.0	8861.0	9329.0	8014.0	8557.0	8897.0	8791.0	9661.0	12301	10337	<b>10200</b>	<b>10800</b>	Revenues (\$mill)	<b>12600</b>
437.0	453.0	445.0	532.0	630.0	624.0	666.0	661.0	905.0	796.0	<b>870</b>	<b>960</b>	Net Profit (\$mill)	<b>1140</b>
23.9%	25.1%	34.9%	31.6%	32.7%	35.9%	29.8%	27.5%	28.5%	25.6%	<b>26.0%</b>	<b>26.0%</b>	Income Tax Rate	<b>26.0%</b>
5.0%	7.1%	11.2%	2.6%	1.6%	1.6%	3.0%	3.5%	4.1%	4.3%	<b>4.0%</b>	<b>4.0%</b>	AFUDC % to Net Profit	<b>3.0%</b>
56.1%	54.4%	56.4%	54.0%	51.3%	50.6%	48.8%	47.7%	50.0%	50.2%	<b>51.0%</b>	<b>50.2%</b>	Long-Term Debt Ratio	<b>53.5%</b>
43.9%	45.6%	43.6%	46.0%	48.7%	49.4%	51.2%	52.3%	50.0%	49.8%	<b>49.0%</b>	<b>48.0%</b>	Common Equity Ratio	<b>46.5%</b>
13323	12824	13736	13648	13811	14196	14387	15135	16670	17607	<b>18625</b>	<b>19875</b>	Total Capital (\$mill)	<b>24100</b>
11451	11408	12231	12431	12992	13746	14684	15800	16820	18034	<b>19650</b>	<b>21225</b>	Net Plant (\$mill)	<b>25100</b>
5.1%	5.3%	5.0%	5.7%	6.3%	5.9%	6.1%	5.7%	6.6%	5.7%	<b>6.0%</b>	<b>6.0%</b>	Return on Total Cap'l	<b>6.0%</b>
7.5%	7.7%	7.4%	8.5%	9.4%	8.9%	9.0%	8.3%	10.9%	9.1%	<b>9.5%</b>	<b>10.0%</b>	Return on Shr. Equity	<b>10.0%</b>
7.5%	7.7%	7.4%	8.5%	9.4%	8.9%	9.0%	8.3%	10.9%	9.1%	<b>9.5%</b>	<b>10.0%</b>	Return on Com Equity <sup>E</sup>	<b>10.0%</b>
1.2%	1.5%	1.7%	2.9%	4.0%	3.4%	3.5%	2.7%	5.2%	3.4%	<b>3.5%</b>	<b>4.0%</b>	Retained to Com Eq	<b>4.0%</b>
84%	80%	77%	65%	57%	62%	61%	67%	52%	63%	<b>62%</b>	<b>59%</b>	All Div'ds to Net Prof	<b>60%</b>

**ELECTRIC OPERATING STATISTICS**

	2013	2014	2015
% Change Retail Sales (KWH)	-6	-1.7	-6
Avg. Indust. Use (MWH)	NA	NA	NA
Avg. Indust. Revs. per KWH (c)	NMF	NMF	NMF
Capacity at Peak (Mw)	NA	NA	NA
Peak Load, Summer (Mw)	NA	NA	NA
Annual Load Factor (%)	NA	NA	NA
% Change Customers (yr-end)	NA	NA	NA

**BUSINESS:** DTE Energy Company is a holding company for DTE Electric (formerly Detroit Edison), which supplies electricity in Detroit and a 7,600-square-mile area in southeastern Michigan, and DTE Gas (formerly Michigan Consolidated Gas). Customers: 2.1 mill. electric, 1.3 mill. gas. Has various nonutility operations. Electric revenue breakdown: residential, 45%; commercial, 35%; industrial,

13%; other, 7%. Generating sources: coal, 67%; nuclear, 17%; gas, 1%; purchased, 15%. Fuel costs: 54% of revenues. '15 reported deprec. rates: 3.5% electric, 2.6% gas. Has 10,000 employees. Chairman & CEO: Gerard M. Anderson. President & COO: Jerry Norcia. Inc.: MI. Address: One Energy Plaza, Detroit, MI 48226-1279. Tel.: 313-235-4000. Internet: www.dteenergy.com.

**ANNUAL RATES** Past 10 Yrs. Past 5 Yrs. Est'd '13-'15 of change (per sh)

Revenues	3.0%	3.0%	2.0%
"Cash Flow"	3.5%	3.0%	4.5%
Earnings	4.5%	6.5%	6.0%
Dividends	3.0%	5.0%	5.5%
Book Value	4.0%	4.0%	4.5%

**Each of DTE Energy's utility subsidiaries has a rate case pending.** DTE Electric is seeking \$344 million, based on a return of 10.5% on a common-equity ratio of 50%. The utility self-implemented a \$245 million increase at the start of August. The staff of the Michigan Public Service Commission (MPSC) is proposing a boost of \$189 million, based on a 10% ROE. DTE Gas is requesting \$183 million, based on a return of 10.75% on a common-equity ratio of 52%. The utility plans to self-implement a \$103 million hike on or after November 1st. The MPSC's staff is recommending a raise of \$109 million, based on a 10% ROE. An order on this case is due by December 17th, and a ruling on the electric application is due by January 31st.

Ohio, which would be a \$1 billion investment for DTE through a joint venture. This project is expected to go into service in the fourth quarter of 2017.

**QUARTERLY REVENUES (\$ mill.)**

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2013	2516	2225	2387	2533	9661.0
2014	3930	2698	2595	3078	12301
2015	2984	2268	2598	2487	10337
2016	2566	2262	2700	2672	10200
2017	<b>2900</b>	<b>2300</b>	<b>2800</b>	<b>2800</b>	<b>10800</b>

**Earnings should advance this year and next.** Rate relief is one factor. Another is growth from the nonutility side of DTE's business. The Gas Pipelines and Storage division is performing better than the company had expected earlier this year, and some projects are in various stages of development. Most significant is the NEXUS pipeline from Michigan to

**Our earnings estimates require an explanation.** Our presentation includes mark-to-market accounting items stemming from DTE's energy-trading operation because they are an ongoing part of the company's business. These charges reduced profits by \$0.26 a share in the first half of 2016. This is why our estimate of \$4.80 is below the company's targeted range of \$4.91-\$5.19.

**EARNINGS PER SHARE <sup>A</sup>**

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2013	1.34	.60	1.13	.69	3.76
2014	1.84	.70	.88	1.68	5.10
2015	1.53	.61	1.47	.84	4.45
2016	1.37	.84	1.49	1.10	4.80
2017	<b>1.60</b>	<b>1.00</b>	<b>1.55</b>	<b>1.15</b>	<b>5.30</b>

**The board of directors raised the dividend, effective with the October payment.** The increase was \$0.04 a share (5.5%) quarterly. This is in line with DTE's goal of 5%-6% annual dividend growth, the same as the company's target for yearly profit growth.

**QUARTERLY DIVIDENDS PAID <sup>B</sup>**

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2012	.5875	.5875	.5875	.62	2.38
2013	.62	.62	.655	.655	2.55
2014	.655	.655	.655	.69	2.66
2015	.69	.69	.69	.77	2.80
2016	.73	.73	.73	.77	

**Still, this timely stock has a dividend yield that is average for a utility.** Like many utility issues, the recent price is near the upper end of our 2019-2021 Target Price Range. Accordingly, total return potential is low.

(A) Diluted EPS. Excl. nonrec. gains (losses): '03, (16c); '05, (2c); '06, 1c; '07, \$1.96; '08, 50c; '11, 51c; '15, (39c); gains (losses) on disc. ops.: '03, 40c; '04, (6c); '05, (20c); '06, (2c); '07, \$1.20; '08, 13c; '12, (33c). Next earnings report due late Oct. (B) Div'ds historically paid in mid-Jan., Apr., July and Oct. • Div'd reinvestment plan avail. (C) Incl. intang. In '15: \$32.31/sh. (D) In mill. (E) Rate base: Net orig. cost. Rate allowed on com. eq. in '15: 10.3% elec.; in '13: 10.5% gas; earned on avg. com. eq., '15: 9.2%. Regulatory Climate: Average.

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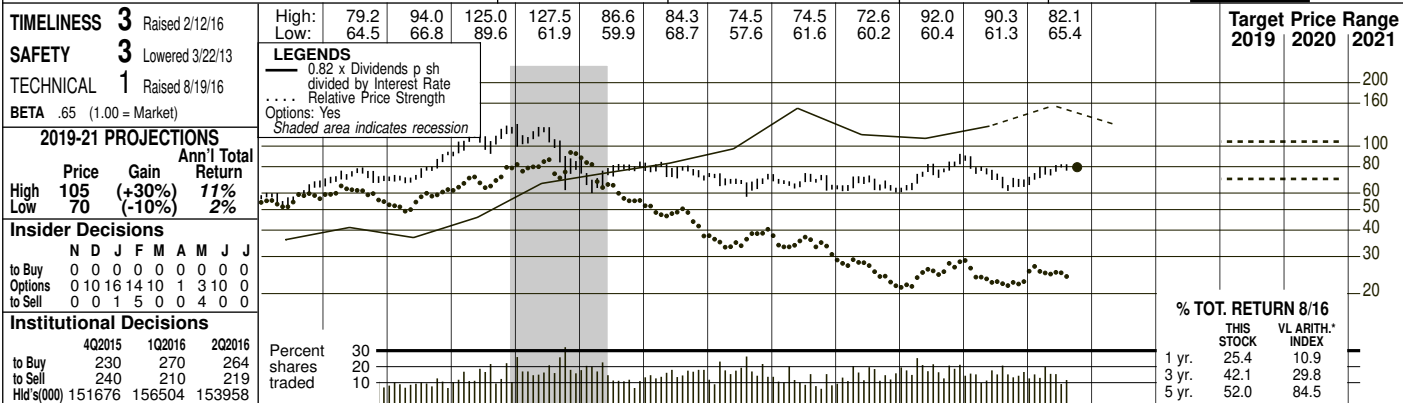
**Company's Financial Strength** B++  
**Stock's Price Stability** 100  
**Price Growth Persistence** 85  
**Earnings Predictability** 90

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Paul E. Debbas, CFA September 16, 2016

# ENTERGY CORP. NYSE-ETR

RECENT PRICE **79.57** P/E RATIO **11.3** (Trailing: 10.2 Median: 13.0) RELATIVE P/E RATIO **0.60** DIV'D YLD **4.4%** VALUE LINE



2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	© VALUE LINE PUB. LLC	19-21
45.61	43.59	37.34	40.17	46.69	46.61	53.94	59.47	69.15	56.82	64.27	63.67	57.94	63.86	69.71	64.54	<b>60.90</b>	<b>62.00</b>	Revenues per sh	67.00
6.49	6.41	7.62	7.43	8.33	8.18	10.69	11.73	12.89	13.29	16.54	17.53	15.98	16.25	17.68	17.71	<b>18.30</b>	<b>16.95</b>	"Cash Flow" per sh	19.00
2.97	3.08	3.68	3.69	3.93	4.40	5.36	5.60	6.20	6.30	6.66	7.55	6.02	4.96	5.77	5.81	<b>7.00</b>	<b>5.35</b>	Earnings per sh <sup>A</sup>	6.25
1.22	1.28	1.34	1.60	1.89	2.16	2.16	2.58	3.00	3.00	3.24	3.32	3.32	3.32	3.32	3.34	<b>3.42</b>	<b>3.52</b>	Div'd Decl'd per sh <sup>B</sup> +	4.00
6.80	6.25	6.88	6.85	6.51	6.72	9.44	10.29	13.92	12.99	13.33	15.21	18.18	15.73	14.82	16.79	<b>16.00</b>	<b>19.25</b>	Cap'l Spending per sh	16.25
31.89	33.78	35.24	38.02	38.26	35.71	40.45	40.71	42.07	45.54	47.53	50.81	51.73	54.00	55.83	51.89	<b>55.50</b>	<b>57.40</b>	Book Value per sh <sup>C</sup>	64.00
219.60	220.73	222.42	228.90	216.83	216.83	202.67	193.12	189.36	189.12	178.75	176.36	177.81	178.37	179.24	178.39	<b>179.00</b>	<b>179.00</b>	Common Shs Outst'g <sup>D</sup>	179.00
10.1	12.5	11.5	13.8	15.1	16.3	14.3	19.3	16.6	12.0	11.6	9.1	11.2	13.2	12.9	12.5	<b>12.5</b>	<b>12.5</b>	Avg Ann'l P/E Ratio	14.0
.66	.64	.63	.79	.80	.87	.77	1.02	1.00	.80	.74	.57	.71	.74	.68	.63	<b>4.6%</b>	<b>4.6%</b>	Relative P/E Ratio	.90
4.1%	3.3%	3.2%	3.1%	3.2%	3.0%	2.8%	2.4%	2.9%	4.0%	4.2%	4.9%	4.9%	5.1%	4.5%	4.6%	<b>4.5%</b>	<b>4.6%</b>	Avg Ann'l Div'd Yield	4.5%

CAPITAL STRUCTURE as of 6/30/16		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050
Total Debt	\$14809 mill.	10932	11484	13094	10746	11488	11229	10302	11391	12495	11513	<b>10900</b>	<b>11100</b>	Revenues (\$mill)	12000																								
LT Debt	\$13112 mill.	1160.9	1160.0	1240.5	1251.1	1270.3	1367.4	1091.9	904.5	1060.0	1061.2	<b>1285</b>	<b>985</b>	Net Profit (\$mill)	1140																								
Incl.	\$716.2 mill. of securitization bonds.	27.6%	30.7%	32.7%	33.6%	32.7%	17.3%	13.0%	26.7%	37.8%	2.2%	<b>14.5%</b>	<b>38.5%</b>	Income Tax Rate	38.5%																								
(LT interest earned: 2.6x)		5.5%	5.8%	5.6%	7.4%	7.4%	8.9%	11.9%	10.1%	9.3%	7.4%	<b>7.0%</b>	<b>10.0%</b>	AFUDC % to Net Profit	8.0%																								
Leases, Uncapitalized	Annual rentals \$78.3 mill.	51.2%	54.3%	58.2%	55.3%	56.3%	52.2%	55.8%	55.1%	54.9%	57.8%	<b>55.5%</b>	<b>54.0%</b>	Long-Term Debt Ratio	54.0%																								
Pension Assets-12/15	\$4707.4 mill.	46.7%	43.9%	40.2%	43.1%	42.1%	46.4%	42.9%	43.6%	43.8%	40.8%	<b>43.0%</b>	<b>44.5%</b>	Common Equity Ratio	45.0%																								
Oblig	\$6848.2 mill.	17539	17902	19795	19985	20166	19324	21432	22109	22842	22714	<b>23125</b>	<b>23125</b>	Total Capital (\$mill)	25400																								
Pfd Stock	\$318.2 mill.	19438	20974	22429	23389	23848	25609	27299	27882	28723	27824	<b>29675</b>	<b>31100</b>	Net Plant (\$mill)	33900																								
Pfd Div'd	\$21.1 mill.	8.0%	7.9%	7.5%	7.6%	7.7%	8.5%	6.4%	5.4%	6.0%	6.0%	<b>7.0%</b>	<b>5.5%</b>	Return on Total Cap'l	6.0%																								
6,115,105 sh.	4.32%-8.25%, \$100 par; 1,000,000 sh.	13.6%	14.2%	15.0%	14.0%	14.4%	14.8%	11.5%	9.1%	10.3%	11.1%	<b>12.5%</b>	<b>9.5%</b>	Return on Shr. Equity	9.5%																								
8.95%; 250,000 sh.	8.75%, all without sinking fund.	13.8%	14.4%	15.3%	14.3%	14.7%	15.0%	11.6%	9.2%	10.4%	11.2%	<b>12.5%</b>	<b>9.5%</b>	Return on Com Equity <sup>E</sup>	10.0%																								
Common Stock	178,982,069 shs. as of 7/29/16	8.3%	8.0%	8.1%	7.6%	7.6%	8.4%	5.2%	3.0%	4.4%	4.8%	<b>6.5%</b>	<b>3.5%</b>	Retained to Com Eq	3.5%																								
MARKET CAP:	\$14 billion (Large Cap)	41%	46%	48%	48%	49%	45%	56%	68%	58%	58%	<b>49%</b>	<b>66%</b>	All Div'ds to Net Prof	65%																								

**ELECTRIC OPERATING STATISTICS**

	2013	2014	2015
% Change Retail Sales (KWH)	+7	+2.9	+1.3
Avg. Indust. Use (MWH)	910	951	957
Avg. Indust. Revs. per KWH(c)	5.77	6.00	5.55
Capacity at Peak (Mw)	23802	24367	24504
Peak Load, Summer (Mw)	21581	20472	20472
Annual Load Factor (%)	62	65	61
% Change Customers (yr-end)	+8	+6	+1.0

**BUSINESS:** Entergy Corporation supplies electricity to 2.9 million customers through subsidiaries in Arkansas, Louisiana, Mississippi, Texas, and New Orleans (regulated separately from Louisiana). Distributes gas to 201,000 customers in Louisiana. Has a nonutility subsidiary that owns six nuclear units (one no longer operating). Electric revenue breakdown: residential, 38%; commercial, 27%; industrial, 26%; other, 9%. Generating sources: gas, 35%; nuclear, 31%; coal, 7%; purchased, 27%. Fuel costs: 33% of revenues. '15 reported depreciation rate: 2.9%. Has 13,600 employees. Chairman & CEO: Leo Denault. Incorporated: Delaware. Address: 639 Loyola Avenue, P.O. Box 61000, New Orleans, Louisiana 70161. Telephone: 504-576-4000. Internet: www.entergy.com.

ANNUAL RATES	Past 10 Yrs.	Past 5 Yrs.	Est'd '13-'15 of change (per sh)
Revenues	4.0%	1.0%	Nil
"Cash Flow"	8.0%	4.0%	1.5%
Earnings	3.0%	-3.0%	2.0%
Dividends	6.0%	1.5%	3.0%
Book Value	3.5%	3.5%	3.0%

Cal-endar	QUARTERLY REVENUES (\$ mill.)				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2013	2609	2738	3352	2692	11391
2014	3209	2997	3458	2831	12495
2015	2920	2713	3371	2509	11513
2016	2610	2463	<b>3300</b>	<b>2527</b>	<b>10900</b>
2017	<b>2700</b>	<b>2500</b>	<b>3300</b>	<b>2600</b>	<b>11100</b>

Cal-endar	EARNINGS PER SHARE <sup>A</sup>				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2013	.90	.92	2.31	.83	4.96
2014	2.27	1.09	1.68	.74	5.77
2015	1.65	.83	1.90	1.43	5.81
2016	1.28	3.16	<b>1.50</b>	<b>1.06</b>	<b>7.00</b>
2017	<b>1.35</b>	<b>1.15</b>	<b>1.60</b>	<b>1.25</b>	<b>5.35</b>

Cal-endar	QUARTERLY DIVIDENDS PAID <sup>B</sup> +				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2012	.83	.83	.83	.83	3.32
2013	.83	.83	.83	.83	3.32
2014	.83	.83	.83	.83	3.32
2015	.83	.83	.83	.85	3.34
2016	.85	.85	.85		

**Entergy's second-quarter earnings require an explanation.** The company's profit of \$3.16 a share included \$2.01 a share from a favorable resolution of uncertain income tax positions. This is the second straight year in which Entergy has benefited from positive tax items, as is evident in the tax rate shown in the statistical array. The company's earnings guidance for 2016 is now \$6.60-\$7.40 a share, and our revised estimate of \$7.00 (up from the previous \$5.10) is within this range. Assuming no unusual tax items in 2017, earnings will likely regress to a more-typical level. At least Entergy should benefit from better operations at the Indian Point nuclear plant next year, which had an extended outage in 2016.

**Prospects at the utilities are generally good.** Entergy is benefiting from rate hikes associated with the purchase in early 2016 of a 1,948-megawatt gas-fired generating plant. The company also received a tariff hike in Arkansas in February, and has filed for additional rate relief through the state's new formula rate plan. Entergy has similar rate plans in Louisiana and Mississippi, as well. The utility has other opportunities to enhance growth by investing in its electric system, such as a project to install advanced meters beginning this year.

**Low power prices continue to affect Entergy's nonregulated operations.** This can be seen in the company's reduced profitability in recent years, compared with the 2008-2012 period. As a result, Entergy has shut (or announced plans to close) some of its nonutility nuclear plants. The FitzPatrick unit, in upstate New York, was one of them, but Entergy has found a buyer that has agreed to pay \$110 million. The companies hope to get approval from the New York commission by November.

**We look for a dividend hike at the board meeting in the fourth quarter.** We estimate that the directors will boost the quarterly payout by \$0.02 a share (2.4%), the same increase as a year earlier. **Entergy stock offers a dividend yield that is a percentage point above the utility mean.** Total return potential to 2019-2021 is also a cut above the industry average.

*Paul E. Debbas, CFA September 16, 2016*

(A) Diluted EPS. Excl. nonrecurring gains (losses): '01, 15c; '02, (\$1.04); '03, 33c net; '05, (21c); '12, (\$1.26); '13, (\$1.14); '14, (56c); '15, (\$6.99). '14 EPS don't add due to rounding. Next earnings report due early Nov. (B) Div'ds historically paid in early Mar., June, Sept., & Dec. Div'd reinvestment plan avail. Shareholder investment plan avail. (C) Incl. def'd charges. In '15: \$34.48/sh. (D) In mill. (E) Rate base: Net original cost. Allowed return on eq. (blended): 10%; earned on avg. com. eq., '15: 10.1%. Regulatory Climate: Average.

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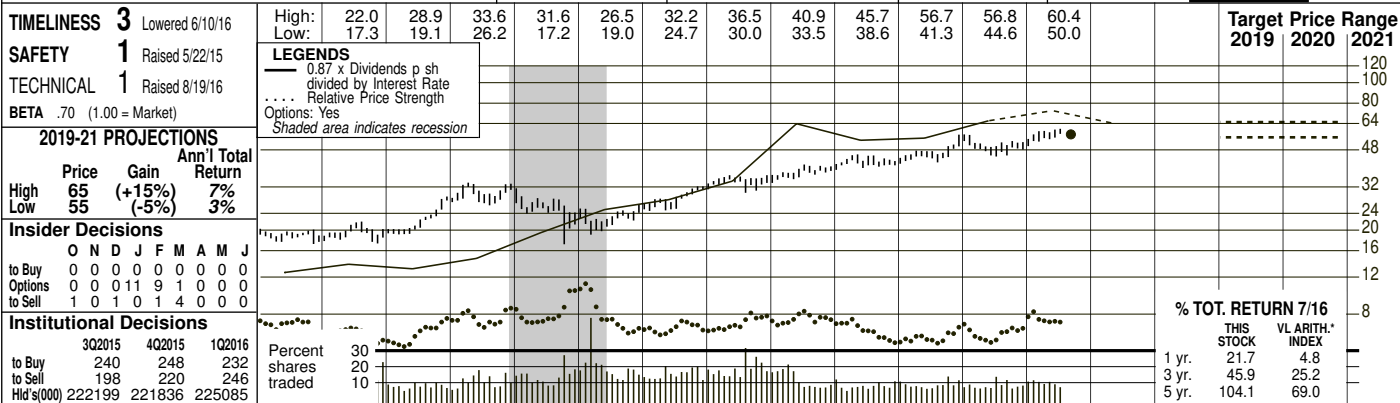
Company's Financial Strength	B++
Stock's Price Stability	95
Price Growth Persistence	15
Earnings Predictability	70

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# EVERSOURCE ENERGY NYSE-ES

RECENT PRICE **56.84** P/E RATIO **18.8** (Trailing: 20.9 Median: 17.0) RELATIVE P/E RATIO **1.00** DIV'D YLD **3.3%** VALUE LINE



2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	© VALUE LINE PUB. LLC	19-21
40.86	52.82	40.89	47.53	51.82	41.85	44.64	37.27	37.22	30.97	27.76	25.21	19.98	23.16	24.42	25.08	<b>23.35</b>	<b>23.80</b>	Revenues per sh	25.75
3.39	10.48	6.32	5.80	5.00	5.46	3.69	4.82	6.16	4.96	5.68	4.88	4.03	5.22	4.56	4.94	<b>4.95</b>	<b>5.40</b>	"Cash Flow" per sh	6.75
d.20	1.37	1.08	1.24	.91	.98	.82	1.59	1.86	1.91	2.10	2.22	1.89	2.49	2.58	2.76	<b>2.90</b>	<b>3.15</b>	Earnings per sh A	3.75
.40	.45	.53	.58	.63	.68	.73	.78	.83	.95	1.03	1.10	1.32	1.47	1.57	1.67	<b>1.78</b>	<b>1.90</b>	Div'd Decl'd per sh B	2.20
2.88	3.40	3.86	4.31	4.85	5.89	5.49	7.14	8.06	5.17	5.41	6.08	4.69	4.62	5.06	5.44	<b>6.95</b>	<b>8.40</b>	Cap'l Spending per sh	6.25
15.43	16.27	17.33	17.73	17.80	18.46	18.14	18.65	19.38	20.37	21.60	22.65	29.41	30.49	31.47	32.64	<b>33.75</b>	<b>35.05</b>	Book Value per sh C	39.50
143.82	130.13	127.56	127.70	129.03	131.59	154.23	156.22	155.83	175.62	176.45	177.16	314.05	315.27	316.98	317.19	<b>317.19</b>	<b>317.19</b>	Common Shs Outst'g D	317.19
--	14.1	16.1	13.4	20.8	19.8	27.1	18.7	13.7	12.0	13.4	15.4	19.9	16.9	17.9	18.1	<b>18.1</b>	<b>18.1</b>	Avg Ann'l P/E Ratio	16.0
--	.72	.88	.76	1.10	1.05	1.46	.99	.82	.80	.85	.97	1.27	.95	.94	.92	<b>.94</b>	<b>.92</b>	Relative P/E Ratio	1.00
1.9%	2.3%	3.0%	3.5%	3.3%	3.5%	3.3%	2.6%	3.2%	4.2%	3.6%	3.2%	3.5%	3.5%	3.4%	3.3%	<b>3.4%</b>	<b>3.3%</b>	Avg Ann'l Div'd Yield	3.7%

CAPITAL STRUCTURE as of 3/31/16		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Revenues (\$mill)	2017
Total Debt	\$10293 mill. Due in 5 Yrs	6884.4	5822.2	5800.1	5439.4	4898.2	4465.7	6273.8	7301.2	7741.9	7954.8	<b>7400</b>	<b>7550</b>	8200	
LT Debt	\$9144.7 mill. LT Interest \$388.9 mill. (LT interest earned: 4.7%)	126.2	251.5	296.2	335.6	377.8	400.3	533.0	793.7	827.1	886.0	<b>930</b>	<b>1010</b>	1220	
Leases, Uncapitalized	Annual rentals \$16.4 mill.	--	30.3%	29.7%	34.9%	36.6%	29.9%	34.0%	35.0%	36.2%	37.9%	<b>37.5%</b>	<b>37.5%</b>	37.5%	
Pension Assets-12/15	\$3905.4 mill.	21.5%	13.9%	15.8%	4.6%	7.1%	8.6%	2.3%	1.4%	2.4%	2.9%	<b>4.0%</b>	<b>4.0%</b>	3.0%	
Oblig \$5080.1 mill.		58.7%	59.2%	60.4%	57.2%	55.1%	53.4%	43.7%	44.3%	45.9%	45.6%	<b>46.5%</b>	<b>46.0%</b>	46.0%	
Pfd Stock \$155.6 mill. Pfd Div'd \$7.6 mill.		39.7%	39.2%	38.1%	41.5%	43.6%	45.3%	55.4%	54.8%	53.2%	53.6%	<b>53.0%</b>	<b>52.5%</b>	53.0%	
Incl. 2,324,000 shs \$1.90-\$3.28 rates (\$50 par) not subject to mandatory redemption.		7052.0	7431.1	7926.2	8629.5	8741.8	8856.0	16675	17544	18738	19313	<b>20250</b>	<b>21100</b>	23500	
Common Stock 317,191,249 shs. as of 4/30/16		6242.2	7229.9	8207.9	8840.0	9567.7	10403	16605	17576	18647	19892	<b>21600</b>	<b>23700</b>	27900	
MARKET CAP: \$18 billion (Large Cap)		2.9%	5.0%	5.4%	5.4%	5.8%	5.9%	4.2%	5.5%	5.3%	5.5%	<b>5.5%</b>	<b>6.0%</b>	6.0%	
		4.3%	8.3%	9.4%	9.1%	9.6%	9.7%	5.7%	8.1%	8.2%	8.4%	<b>8.5%</b>	<b>9.0%</b>	9.5%	
		4.3%	8.4%	9.6%	9.2%	9.8%	9.8%	5.7%	8.2%	8.2%	8.5%	<b>8.5%</b>	<b>9.0%</b>	9.5%	
		.3%	4.3%	5.3%	4.7%	5.0%	5.0%	1.6%	3.4%	3.5%	3.4%	<b>3.5%</b>	<b>3.5%</b>	4.0%	
		94%	50%	45%	50%	49%	50%	72%	59%	58%	61%	<b>61%</b>	<b>60%</b>	58%	

**BUSINESS:** Eversource Energy (formerly Northeast Utilities) is the parent of utilities that have 3.1 million electric, 504,000 gas customers. Supplies power to most of Connecticut and gas to part of Connecticut; supplies power to three fourths of New Hampshire's population; supplies power to western Massachusetts and parts of eastern Massachusetts & gas to central & eastern Massachusetts.

Acquired NSTAR 4/12. Electric revenue breakdown: residential, 52%; commercial, 36%; industrial, 5%; other, 7%. Fuel costs: 39% of revenues. '15 reported deprec. rate: 2.9%. Has 8,200 employees. Chairman: Thomas J. May. President & CEO: Jim Judge. Inc.: MA. Address: 300 Cadwell Drive, Springfield, MA 01104. Tel.: 413-785-5871. Internet: www.eversource.com.

ANNUAL RATES	Past 10 Yrs.	Past 5 Yrs.	Est'd '13-'15
of change (per sh)			to '19-'21
Revenues	-6.5%	-5.5%	1.0%
"Cash Flow"	-1.0%	-2.5%	5.5%
Earnings	9.5%	6.0%	6.0%
Dividends	9.5%	11.0%	6.0%
Book Value	6.0%	9.0%	4.0%

Cal-endar	QUARTERLY REVENUES (\$ mill.)				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2013	1995	1635	1892	1777	7301.2
2014	2290	1677	1892	1881	7741.9
2015	2513	1817	1933	1691	7954.8
2016	2056	1767	1900	1677	7400
2017	<b>2150</b>	<b>1800</b>	<b>1900</b>	<b>1700</b>	<b>7550</b>

Cal-endar	EARNINGS PER SHARE A				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2013	.72	.54	.66	.57	2.49
2014	.74	.40	.74	.70	2.58
2015	.80	.65	.74	.57	2.76
2016	.77	.64	.82	.67	2.90
2017	<b>.90</b>	<b>.70</b>	<b>.85</b>	<b>.70</b>	<b>3.15</b>

Cal-endar	QUARTERLY DIVIDENDS PAID B				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2012	.294	.343	.343	.343	1.32
2013	.3675	.3675	.3675	.3675	1.47
2014	.393	.393	.393	.393	1.57
2015	.4175	.4175	.4175	.4175	1.67
2016	.445	.445			

(A) Dil. EPS. Excl. nonrec. gains (losses): '02, 10c; '03, (32c); '04, (7c); '05, (\$1.36); '08, (19c); '10, 9c. '13 & '14 EPS don't add due to rounding. Next earnings report due late Oct. (B) Div'ds historically paid late Mar., June, Sept., & Dec. Div'd reinv. plan avail. (C) Incl. def'd chgs. In '15: \$22.88/sh. (D) In incl. (E) Rate all'd on com. eq. in MA: (elec) '11, 9.6%; (gas) '16, 9.8%; in CT: (elec.) '15, 9.02%; (gas) '15, 9.5%; in NH: '10, 9.67%; earn. on avg. com. eq., '15: 8.7%. Regul. Clim.: CT, Below Avg.; NH, Avg.; MA, Above Avg.

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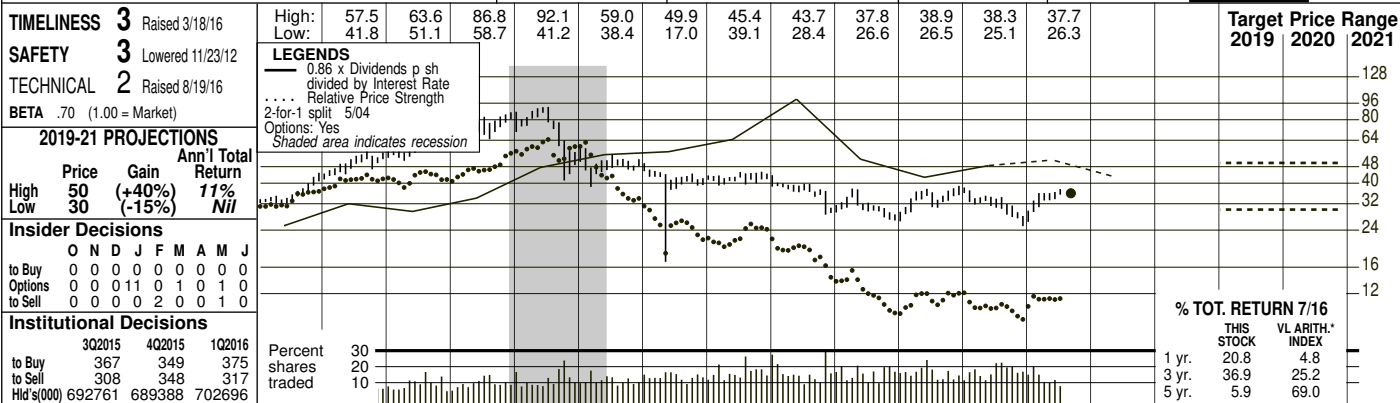
Company's Financial Strength	A
Stock's Price Stability	95
Price Growth Persistence	80
Earnings Predictability	85

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**We expect solid earnings growth this year and next.** Transmission investment is a significant factor. Eversource is effecting reductions in operating and maintenance expenses stemming from the 2012 merger of Northeast Utilities and NSTAR. The utility is benefiting from customer conversions from oil heat to gas heat. Our 2016 estimate is at the low end of Eversource's guidance of \$2.90-\$3.05 a share. **Eversource will sell its generating assets in New Hampshire.** Their rate base is \$700 million. Under a settlement approved by the state commission, the utility will issue securitized bonds for any portion that is not recovered in the sale price. However, Eversource will still have to find a way to make up for the lost income (\$0.11 a share) that these assets generate annually. The company will attempt to do so by retiring debt and investing in utility infrastructure. **This top-quality stock has a dividend yield that is average for a utility.** Like most utility issues, the recent price is within our 2019-2021 Target Price Range, so total return potential is unexciting. *Paul E. Debbas, CFA August 19, 2016*

# EXELON CORP. NYSE-EXC

RECENT PRICE **35.85** P/E RATIO **16.0** (Trailing: 21.0 Median: 15.0) RELATIVE P/E RATIO **0.85** DIV/D YLD **3.6%** VALUE LINE



**TIMELINESS** 3 Raised 3/18/16  
**SAFETY** 3 Lowered 11/23/12  
**TECHNICAL** 2 Raised 8/19/16  
**BETA** .70 (1.00 = Market)

**2019-21 PROJECTIONS**

High	Price	Gain	Ann'l Total Return
50	30	(+40%)	11%
Low	30	(-15%)	Nil

**Insider Decisions**

	O	N	D	J	F	M	A	M	J
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	1	1	1	0	1	0	1
to Sell	0	0	0	0	2	0	0	1	0

**Institutional Decisions**

	3Q2015	4Q2015	1Q2016
to Buy	367	349	375
to Sell	308	348	317
Hld's(000)	692761	689388	702696

**Percent shares traded**

30
20
10

**% TOT. RETURN 7/16**

	THIS STOCK	VL ARITH. INDEX
1 yr.	20.8	4.8
3 yr.	36.9	25.2
5 yr.	5.9	69.0

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	© VALUE LINE PUB. LLC	19-21
11.75	23.58	23.13	24.09	21.85	23.05	23.37	28.62	28.65	26.25	28.17	28.53	27.48	29.03	31.90	32.01	<b>32.60</b>	<b>33.10</b>	Revenues per sh	<b>36.25</b>
1.84	5.06	5.03	5.06	5.68	6.19	6.71	7.43	7.64	8.25	8.32	7.23	6.61	6.72	6.61	6.80	<b>6.95</b>	<b>8.15</b>	"Cash Flow" per sh	<b>9.75</b>
1.39	2.20	2.40	2.44	2.75	3.21	3.50	4.03	4.10	4.29	3.87	3.75	1.92	2.31	2.10	2.54	<b>1.75</b>	<b>2.75</b>	Earnings per sh <sup>A</sup>	<b>3.50</b>
--	.91	.88	.96	1.26	1.60	1.64	1.82	2.05	2.10	2.10	2.10	2.10	1.46	1.24	1.24	<b>1.26</b>	<b>1.29</b>	Div'd Decl'd per sh <sup>B</sup>	<b>1.50</b>
1.18	3.18	3.33	2.98	2.89	3.25	3.61	4.05	4.74	4.96	5.03	6.09	6.77	6.29	7.07	8.29	<b>8.35</b>	<b>7.40</b>	Cap'l Spending per sh	<b>5.75</b>
11.31	12.82	11.97	12.95	14.19	13.69	14.89	15.34	16.78	19.16	20.49	21.68	25.07	26.52	26.29	28.04	<b>28.35</b>	<b>30.15</b>	Book Value per sh <sup>C</sup>	<b>35.75</b>
638.01	642.01	646.63	656.37	664.19	666.37	669.86	660.88	658.15	659.76	661.85	663.37	854.78	857.29	859.83	919.92	<b>920.00</b>	<b>951.00</b>	Common Shs Outst'g <sup>D</sup>	<b>960.00</b>
22.4	13.2	10.5	11.8	13.0	15.4	16.5	18.2	18.0	11.5	11.0	11.3	19.1	13.4	16.0	12.6	<b>12.6</b>	<b>12.6</b>	Avg Ann'l P/E Ratio	<b>11.5</b>
1.46	.68	.57	.67	.69	.82	.89	.97	1.08	.77	.70	.71	1.22	.75	.84	.64	<b>.64</b>	<b>.64</b>	Relative P/E Ratio	<b>.70</b>
--	3.1%	3.5%	3.4%	3.5%	3.2%	2.8%	2.5%	2.8%	4.3%	4.9%	5.0%	5.7%	4.7%	3.7%	3.9%	<b>3.9%</b>	<b>3.9%</b>	Avg Ann'l Div'd Yield	<b>3.7%</b>

**CAPITAL STRUCTURE as of 3/31/16**  
 Total Debt \$35653 mill. Due in 5 Yrs \$12658 mill.  
 LT Debt \$29955 mill. LT Interest \$1273 mill.  
 Includes \$641 mill. nonrecourse transition bonds.  
 (LT interest earned: 4.1x)  
**Leases, Uncapitalized** Annual rentals \$133 mill.  
**Pension Assets-12/15** \$14347 mill.  
**Oblig** \$17753 mill.

**Pfd Stock** \$193 mill. **Pfd Div'd** \$13 mill.  
 Includes \$193 mill. in preferred securities of subsidiaries.  
**Common Stock** 887,313,966 shs.

**MARKET CAP: \$32 billion (Large Cap)**

**ELECTRIC OPERATING STATISTICS**

	2013	2014	2015
% Change Retail Sales (KWH)	.5	.7	-1.0
Avg. Indust. Use (MWH)	NA	NA	NA
Avg. Indust. Revs. per MWH (c)	NMF	NMF	NMF
Capacity at Peak (KWH)	NA	NA	NA
Peak Load (Mw)	NA	NA	NA
Nuclear Capacity Factor (%)	94.1	94.3	NA
% Change Customers (yr-end)	+6	+6	+1.1

**ANNUAL RATES**

	Past 10 Yrs.	Past 5 Yrs.	Est'd '13-'15
change (per sh)	10 Yrs.	5 Yrs.	to '19-'21
Revenues	3.0%	2.5%	2.5%
"Cash Flow"	1.5%	-3.5%	6.5%
Earnings	-2.0%	-10.5%	7.0%
Dividends	.5%	-9.0%	2.5%
Book Value	7.0%	7.5%	5.0%

**QUARTERLY REVENUES (\$ mill.)**

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2013	6082	6141	6502	6163	24888
2014	7237	6024	6912	7256	27429
2015	8830	6514	7401	6702	29447
2016	7573	6910	<b>8000</b>	<b>7517</b>	<b>30000</b>
2017	<b>8100</b>	<b>7200</b>	<b>8400</b>	<b>7800</b>	<b>31500</b>

**EARNINGS PER SHARE <sup>A</sup>**

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2013	.30	.57	.86	.59	2.31
2014	.10	.68	.96	.35	2.10
2015	.80	.74	.69	.33	2.54
2016	.26	.43	.70	.36	<b>1.75</b>
2017	.75	.70	.85	.45	<b>2.75</b>

**QUARTERLY DIVIDENDS PAID <sup>B</sup>**

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2012	.525	.525	.525	.525	2.10
2013	.525	.31	.31	.31	1.46
2014	.31	.31	.31	.31	1.24
2015	.31	.31	.31	.31	1.24
2016	.31	.31	.318		

**BUSINESS:** Exelon Corporation is a holding company for Commonwealth Edison, PECO Energy, Baltimore Gas and Electric, Pepco, Delmarva Power, & Atlantic City Electric. Has 8.6 mill. elec., 1.3 mill. gas customers. Has nonregulated generating & energy-marketing ops. Acq'd Constellation Energy 3/12; Pepco Holdings 3/16. Elec. rev. breakdown: res'l, 63%; small comm'l & ind'l, 23%; large comm'l & ind'l, 13%; other, 1%. Generating sources: nuclear, 68%; other, 8%; purch., 24%. Fuel costs: 44% of revs. '15 depr. rates: 2.8%-3.5% elec., 2.2% gas. Has 34,000 empls. Chairman: Mayo A. Shattuck III. Pres. & CEO: Christopher M. Crane. Inc.: PA. Address: 10 S. Dearborn St., P.O. Box 805379, Chicago, IL 60680-5379. Tel.: 312-394-7398. Internet: www.exeloncorp.com.

**Exelon is reducing its nuclear presence in Illinois and increasing it in New York.** The company's nuclear facilities are nonutility, and their profitability has diminished in recent years due to low power prices, subsidies for renewable energy, and weak demand for electricity. Exelon sought legislation in Illinois that would have kept two plants open, but was unsuccessful. Accordingly, the company will shut the Clinton plant in 2017 and the two Quad Cities units in 2018. On the other hand, New York will subsidize unprofitable plants upstate, so Exelon agreed to pay Entergy \$110 million for the FitzPatrick unit, which would have been closed next year.

**Even with the announcement in New York, Exelon is still increasing its focus on its regulated utility operations.** This strategy was behind the company's acquisition of Pepco Holdings in March. The deal will be dilutive to earnings in 2016 due to merger-related costs, but should be accretive next year. Exelon projects that its utility income will rise at an average annual pace of 7%-9% through 2020, thanks to a combination of rate-base

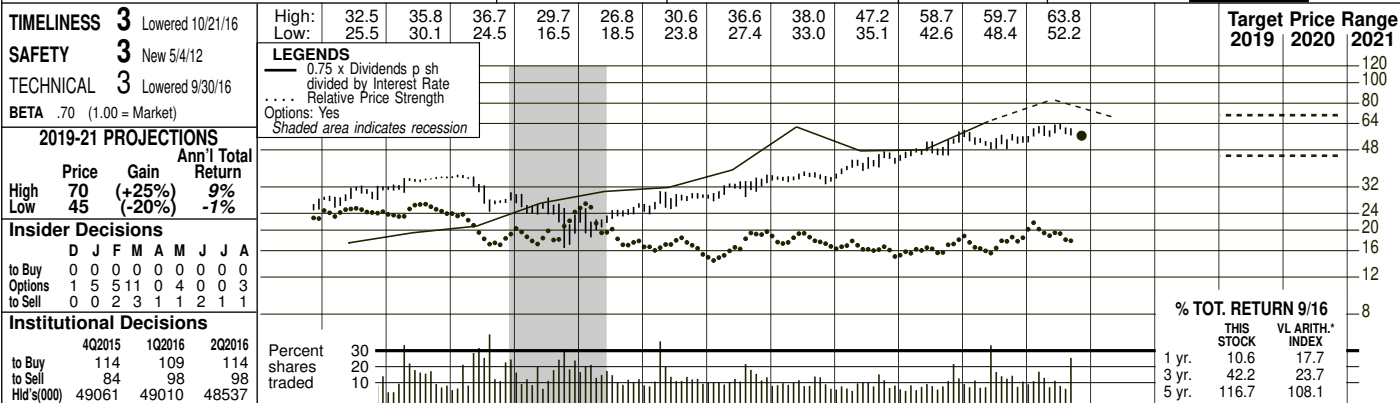
growth and rate relief. In fact . . . **The utilities have become more active in the regulatory arena.** In early June, Baltimore Gas and Electric received electric and gas rate increases. Electric rates were raised by \$41.7 million, based on a 9.75% return on equity, and gas tariffs were boosted by \$47.8 million, based on a 9.65% ROE. Most notably, however, Pepco's utilities are earning ROEs more than two percentage points below their allowed level. Accordingly, rate cases are pending in each of Pepco's jurisdictions. In Maryland, Pepco filed for a \$126.6 million hike. In Washington, DC, Pepco asked for \$85.5 million. In New Jersey, Atlantic City Electric sought \$79.4 million. Delmarva Power requested electric and gas hikes in Delaware and Maryland totaling \$150.5 million. Each of these filings is based on a 10.6% ROE. Orders are expected in November for the Pepco Maryland application and in 2017 for the other cases. **The yield of Exelon stock, following a modest dividend hike, is about equal to the utility mean.** Total return potential to 2019-2021 is spectacular. *Paul E. Debbas, CFA August 19, 2016*

(A) Diluted eps. Excl. nonrec. gain (losses): '02, (18c); '03, (.03); '05, (\$1.85); '06, (\$1.15); '09, (20c); '12, (50c); '13, (31c); '14, 23c; '16, (21c). '13-'15 EPS don't add due to rounding or chg. in shs. Next eps. report due early Nov. (B) Div'ds paid in early Mar., June, Sept., & Dec. Div'd reinv. plan avail. (C) Incl. def'd charges. In '15: \$10.02/sh. (D) In mill., adj. for split. (E) Rate allowed on com. eq. in IL '15: 9.25%; in MD in '13: 9.75% elec., 9.6% gas; earned on avg. com. eq., '15: 9.4%. Regulated. Climate: PA, Avg.; IL, MD, Below Avg.	<b>Company's Financial Strength</b> B++ <b>Stock's Price Stability</b> 85 <b>Price Growth Persistence</b> 5 <b>Earnings Predictability</b> 60
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# NORTHWESTERN NYSE-NWE

RECENT PRICE **56.10** P/E RATIO **15.1** (Trailing: 16.6; Median: 16.0) RELATIVE P/E RATIO **0.82** DIV'D YLD **3.7%** VALUE LINE



2019-21 PROJECTIONS		Price	Gain	Ann'l Total Return																Target Price Range	2019	2020	2021
High	Low	70	(+25%)	9%																			
		45	(-20%)	-1%																			
Insider Decisions														Percent shares traded		30		20		10			
Institutional Decisions														4Q2015		1Q2016		2Q2016		3Q2016			
														114		109		114		114			
														84		98		98		98			
														49061		49010		48537					

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	© VALUE LINE PUB. LLC		19-21
--	--	--	--	29.18	32.57	31.49	30.79	35.09	31.72	30.66	30.80	28.76	29.80	25.68	25.21	<b>25.75</b>	<b>26.65</b>	Revenues per sh	<b>30.00</b>	
--	--	--	--	3.20	4.00	3.62	3.70	4.40	4.62	4.76	5.42	5.18	5.45	5.39	5.92	<b>6.60</b>	<b>6.80</b>	"Cash Flow" per sh	<b>8.00</b>	
--	--	--	--	d14.32	1.71	1.31	1.44	1.77	2.02	2.14	2.53	2.26	2.46	2.99	2.90	<b>3.40</b>	<b>3.45</b>	Earnings per sh <sup>A</sup>	<b>4.00</b>	
--	--	--	--	--	1.00	1.24	1.28	1.32	1.34	1.36	1.44	1.48	1.52	1.60	1.92	<b>2.00</b>	<b>2.08</b>	Div'd Decl'd per sh <sup>B</sup> = †	<b>2.32</b>	
--	--	--	--	2.25	2.26	2.81	3.00	3.47	5.26	6.30	5.20	5.89	5.95	5.76	5.89	<b>6.35</b>	<b>6.65</b>	Cap'l Spending per sh	<b>5.50</b>	
--	--	--	--	19.92	20.60	20.65	21.12	21.25	21.86	22.64	23.68	25.09	26.60	31.50	33.22	<b>34.40</b>	<b>35.60</b>	Book Value per sh <sup>C</sup>	<b>40.00</b>	
--	--	--	--	35.60	35.79	35.97	38.97	35.93	36.00	36.23	36.28	37.22	38.75	46.91	48.17	<b>48.50</b>	<b>48.75</b>	Common Shs Outst'g <sup>D</sup>	<b>49.50</b>	
--	--	--	--	17.1	26.0	21.7	13.9	11.5	12.9	12.6	15.7	16.9	16.2	18.4				Avg Ann'l P/E Ratio	<b>14.0</b>	
--	--	--	--	.91	1.40	1.15	.84	.77	.82	.79	1.00	.95	.85	.93				Relative P/E Ratio	<b>.90</b>	
--	--	--	--	3.4%	3.6%	4.1%	5.4%	5.7%	4.9%	4.5%	4.2%	3.7%	3.3%	3.6%				Avg Ann'l Div'd Yield	<b>4.1%</b>	

<b>CAPITAL STRUCTURE as of 6/30/16</b>		1132.7	1200.1	1260.8	1141.9	1110.7	1117.3	1070.3	1154.5	1204.9	1214.3	<b>1250</b>	<b>1300</b>	Revenues (\$mill)	<b>1485</b>
Total Debt \$2057.8 mill. Due in 5 Yrs \$477.6 mill.		49.2	53.2	67.6	73.4	77.4	92.6	83.7	94.0	120.7	138.4	<b>165</b>	<b>170</b>	Net Profit (\$mill)	<b>195</b>
LT Debt \$1799.1 mill. LT Interest \$82.8 mill.		40.3%	37.8%	37.3%	17.2%	25.0%	9.8%	9.6%	13.2%	13.2%	13.7%	<b>Nil</b>	<b>12.0%</b>	Income Tax Rate	<b>12.0%</b>
Incl. \$25.4 mill. capitalized leases. (LT interest earned: 2.7x)		3.3%	2.5%	2.3%	7.2%	22.7%	5.4%	15.2%	14.1%	14.4%	16.1%	<b>9.0%</b>	<b>9.0%</b>	AFUDC % to Net Profit	<b>5.0%</b>
Pension Assets-12/15 \$500.0 mill.		49.9%	50.1%	46.8%	56.4%	57.2%	52.2%	53.8%	53.5%	53.4%	53.1%	<b>54.0%</b>	<b>53.0%</b>	Long-Term Debt Ratio	<b>50.5%</b>
Pfd Stock None		50.1%	49.9%	53.2%	43.6%	42.8%	47.8%	46.2%	46.5%	46.6%	46.9%	<b>46.0%</b>	<b>47.0%</b>	Common Equity Ratio	<b>49.5%</b>
Oblig. \$628.9 mill.		1482.2	1648.4	1434.3	1803.9	1916.4	1797.1	2020.7	2215.7	3168.0	3408.6	<b>3630</b>	<b>3700</b>	Total Capital (\$mill)	<b>4000</b>
Common Stock 48,311,224 shs. as of 7/15/16		1491.9	1770.9	1839.7	1964.1	2118.0	2213.3	2435.6	2690.1	3758.0	4059.5	<b>4215</b>	<b>4375</b>	Net Plant (\$mill)	<b>4850</b>
MARKET CAP: \$2.7 billion (Mid Cap)		5.2%	5.0%	7.0%	6.0%	6.0%	7.1%	5.5%	5.5%	4.8%	5.2%	<b>5.5%</b>	<b>5.5%</b>	Return on Total Cap'l	<b>6.0%</b>
ELECTRIC OPERATING STATISTICS		6.6%	6.5%	8.9%	9.3%	9.4%	10.8%	9.0%	9.1%	8.2%	8.6%	<b>10.0%</b>	<b>9.5%</b>	Return on Shr. Equity	<b>10.0%</b>
		6.6%	6.5%	8.9%	9.3%	9.4%	10.8%	9.0%	9.1%	8.2%	8.6%	<b>10.0%</b>	<b>9.5%</b>	Return on Com Equity <sup>E</sup>	<b>10.0%</b>
		.7%	.7%	2.3%	3.2%	3.5%	4.7%	3.2%	3.5%	3.8%	3.0%	<b>4.0%</b>	<b>4.0%</b>	Retained to Com Eq	<b>4.0%</b>
		90%	89%	74%	66%	63%	56%	65%	61%	54%	65%	<b>59%</b>	<b>60%</b>	All Div'ds to Net Prof	<b>58%</b>

**ANNUAL RATES** Past 10 Yrs. Past 5 Yrs. Est'd '13-'15 of change (per sh)

Revenues	-1.5%	-3.5%	2.0%
"Cash Flow"	4.5%	4.0%	6.0%
Earnings	--	7.0%	6.5%
Dividends	13.0%	4.5%	5.5%
Book Value	4.0%	7.0%	4.5%

Cal-endar	QUARTERLY REVENUES (\$ mill.)				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2013	313.0	260.2	262.2	319.1	1154.5
2014	369.7	270.3	251.9	313.0	1204.9
2015	346.0	270.6	272.7	325.0	1214.3
2016	332.5	293.1	301.0	<b>323.4</b>	<b>1250</b>
2017	<b>350</b>	<b>310</b>	<b>310</b>	<b>330</b>	<b>1300</b>

Cal-endar	EARNINGS PER SHARE <sup>A</sup>				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2013	1.01	.37	.40	.68	2.46
2014	1.17	.20	.77	.85	2.99
2015	1.09	.38	.51	.93	2.90
2016	.79	.73	.92	<b>.96</b>	<b>3.40</b>
2017	<b>1.10</b>	<b>.50</b>	<b>.75</b>	<b>1.10</b>	<b>3.45</b>

Cal-endar	QUARTERLY DIVIDENDS PAID <sup>B</sup> = †				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2012	.37	.37	.37	.37	1.48
2013	.38	.38	.38	.38	1.52
2014	.40	.40	.40	.40	1.60
2015	.48	.48	.48	.48	1.92
2016	.50	.50	.50		

**(A)** Diluted EPS. Excl. gain (loss) on disc. ops.: '05, ('06); '06, '1c; nonrec. gains: '12, '39c net; '15, '27c. '15 EPS don't add due to rounding. Next earnings report due mid-Feb. **(B)** Div'ds historically paid in late Mar., June, Sept. & Dec. **(C)** Incl. def'd charges. In '15: \$18.16/sh. **(D)** In mill. **(E)** Rate base: Net orig. cost. Rate allowed on com. eq. in MT in '14 (elec.): 9.8%; in '13 (gas): 9.8%; in SD in '15: none specified; in NE in '07: 10.4%; earned on avg. com. eq., '15: 9.0%. Regul. Climate: Avg.

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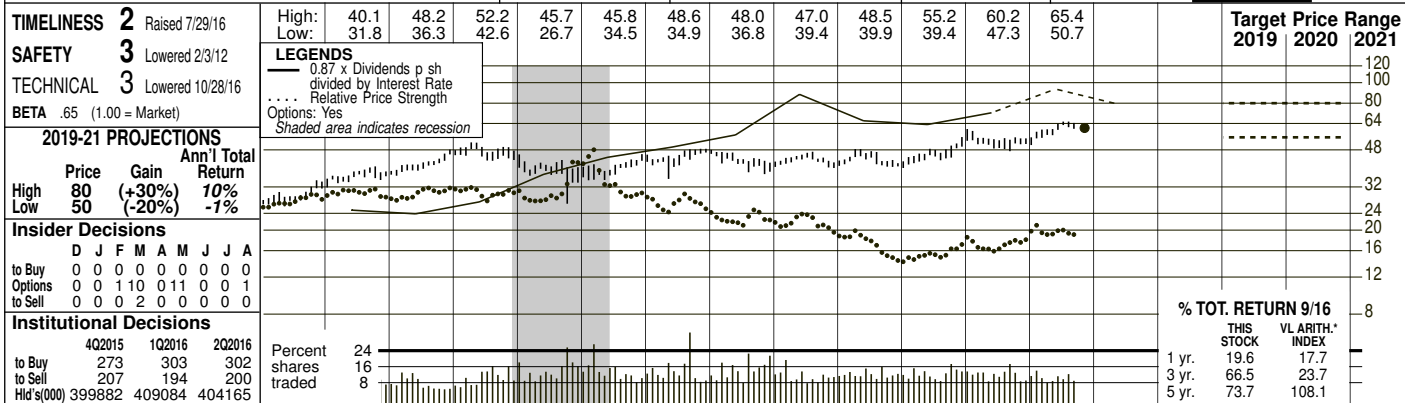
**NorthWestern is appealing two regulatory decisions that were issued this year.** The first involves the Federal Energy Regulatory Commission (FERC). In 2012, FERC, which regulates wholesale power, ruled that just 4% of the cost of a new gas-fired generating plant could be allocated to wholesale users. NorthWestern had proposed an allocation of 20%, with Montana customers being responsible for the remaining 80%. FERC's unfavorable ruling forced the company to take a \$0.12-a-share charge in 2012 (included in our earnings presentation). The regulators rejected NorthWestern's request for reconsideration. So the company has filed a petition with the U.S. Circuit Court of Appeals. The second involves the Montana Public Service Commission (MPSC), which disallowed some expenses associated with a plant outage that occurred in 2013. This decision forced NorthWestern to take a \$0.13-a-share charge (included in our presentation) in the first quarter of 2016. The company has filed an appeal with the Montana District Court. When either of these matters will be concluded is not known.

**The utility is seeking a gas rate increase in Montana.** This is the company's first such filing since 2012. NorthWestern asked for an increase of \$10.9 million (8.0%), based on a return of 10.35% on a common-equity ratio of 46.8%. A final order is expected in nine months. The utility is also requesting an interim boost of \$5.6 million (4.9%); if and when it gets interim rate relief is up to the MPSC. **We estimate that earnings will advance in 2016 and 2017.** The aforementioned regulatory disallowance hurt earnings in the first quarter, but was more than offset by a separate regulatory order in the second period that enabled NorthWestern to recognize revenues from previous periods and a third-quarter tax benefit. Customer growth and rate relief should benefit the bottom line each year. NorthWestern was granted an electric tariff hike in South Dakota in late 2015. **This stock's dividend yield is about average, by utility standards.** Like most utility issues, the recent price is within our 2019-2021 Target Price Range. Thus, total return potential is just modest. *Paul E. Debbas, CFA* *October 28, 2016*

Company's Financial Strength	B+
Stock's Price Stability	95
Price Growth Persistence	85
Earnings Predictability	90

**To subscribe call 1-800-VALUELINE**

**PG&E CORP. NYSE-PCG** RECENT PRICE **60.93** P/E RATIO **17.3** (Trailing: 38.6; Median: 16.0) RELATIVE P/E RATIO **0.94** DIV'D YLD **3.3%** VALUE LINE



2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	© VALUE LINE PUB. LLC	19-21
67.75	63.18	32.74	25.05	26.47	31.78	36.02	37.42	40.51	36.15	35.02	36.28	34.92	34.16	35.91	34.21	<b>33.45</b>	<b>34.90</b>	Revenues per sh	<b>39.25</b>
.80	5.66	1.14	4.80	5.71	7.12	7.76	8.02	8.44	8.37	8.22	8.08	7.32	6.33	8.13	7.29	<b>8.60</b>	<b>9.90</b>	"Cash Flow" per sh	<b>11.00</b>
d9.21	3.02	d2.36	2.05	2.12	2.35	2.76	2.78	3.22	3.03	2.82	2.78	2.07	1.83	3.06	2.00	<b>2.90</b>	<b>3.90</b>	Earnings per sh <sup>A</sup>	<b>4.50</b>
1.20	--	--	--	--	1.23	1.32	1.44	1.56	1.68	1.82	1.82	1.82	1.82	1.82	1.82	<b>1.93</b>	<b>2.08</b>	Div'd Decl'd per sh <sup>B</sup> +	<b>2.70</b>
4.54	7.33	7.94	4.08	3.72	4.90	6.90	7.83	10.05	10.68	9.62	9.79	10.74	11.40	10.16	10.51	<b>11.10</b>	<b>11.35</b>	Cap'l Spending per sh	<b>11.50</b>
8.19	11.89	9.47	10.12	20.62	19.60	22.44	24.18	25.97	27.88	28.55	29.35	30.35	31.41	33.09	33.69	<b>35.35</b>	<b>37.30</b>	Book Value per sh <sup>C</sup>	<b>42.25</b>
387.19	363.38	381.67	416.52	418.62	368.27	348.14	353.72	361.06	370.60	395.23	412.26	430.72	456.67	475.91	492.03	<b>505.00</b>	<b>510.00</b>	Common Shs Outst'g <sup>D</sup>	<b>525.00</b>
--	4.8	--	9.5	13.8	15.4	14.8	16.8	12.1	13.0	15.8	15.5	20.7	23.7	15.0	26.4	<b>Bold figures are Value Line estimates</b>		Avg Ann'l P/E Ratio	<b>14.5</b>
--	.25	--	.54	.73	.82	.80	.89	.73	.87	1.01	.97	1.32	1.33	.79	1.33			Relative P/E Ratio	<b>.90</b>
4.8%	--	--	--	--	3.4%	3.2%	3.1%	4.0%	4.3%	4.1%	4.2%	4.2%	4.2%	4.0%	3.4%			Avg Ann'l Div'd Yield	<b>4.1%</b>

CAPITAL STRUCTURE as of 6/30/16		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Debt \$18214 mill. Due in 5 Yrs \$5102 mill.		12539	13237	14628	13399	13841	14956	15040	15598	17090	16833	<b>16900</b>	<b>17800</b>	Revenues (\$mill)	<b>20650</b>				
LT Debt \$16525 mill. LT Interest \$766 mill.		1005.0	1020.0	1198.0	1168.0	1113.0	1132.0	893.0	828.0	1450.0	988.0	<b>1470</b>	<b>2005</b>	Net Profit (\$mill)	<b>2425</b>				
(LT interest earned: 1.8x)		35.5%	34.6%	26.2%	31.1%	33.0%	30.3%	23.9%	24.5%	19.2%	19.2%	<b>25.0%</b>	<b>25.5%</b>	Income Tax Rate	<b>27.0%</b>				
Pension Assets-12/15 \$13745 mill.		6.7%	9.4%	9.5%	11.9%	14.4%	11.2%	17.5%	17.9%	10.0%	15.7%	<b>11.0%</b>	<b>8.0%</b>	AFUDC % to Net Profit	<b>7.0%</b>				
Obliq. \$16299 mill.		51.7%	52.6%	52.2%	51.4%	49.6%	48.8%	48.7%	46.6%	48.5%	48.8%	<b>49.5%</b>	<b>49.0%</b>	Long-Term Debt Ratio	<b>49.0%</b>				
Pfd Stock \$252 mill. Pfd Div'd \$14 mill.		46.8%	46.1%	46.5%	47.4%	49.3%	50.2%	50.4%	52.5%	50.7%	50.4%	<b>49.5%</b>	<b>50.5%</b>	Common Equity Ratio	<b>50.5%</b>				
4,534,958 shs. 4.36% to 5%, cumulative and \$25 par, redeemable from \$25.75 to \$27.25; 5,784,825 shs. 5.00% to 6.00%, cumulative nonredeemable and \$25 par.		16696	18558	20163	21793	22863	24119	25956	27311	31050	32858	<b>35925</b>	<b>37800</b>	Total Capital (\$mill)	<b>43900</b>				
Common Stock 498,506,353 shs. as of 7/19/16		21785	23656	26261	28892	31449	33655	37523	41252	43941	46723	<b>49450</b>	<b>52200</b>	Net Plant (\$mill)	<b>60300</b>				
MARKET CAP: \$30 billion (Large Cap)		7.6%	7.4%	7.8%	6.7%	6.2%	5.9%	4.7%	4.2%	5.8%	4.1%	<b>5.0%</b>	<b>6.5%</b>	Return on Total Cap'l	<b>6.5%</b>				
		12.5%	11.6%	12.4%	11.0%	9.6%	9.2%	6.7%	5.7%	9.1%	5.9%	<b>8.0%</b>	<b>10.5%</b>	Return on Shr. Equity	<b>11.0%</b>				
		12.7%	11.8%	12.6%	11.2%	9.7%	9.2%	6.7%	5.7%	9.1%	5.9%	<b>8.0%</b>	<b>10.5%</b>	Return on Com Equity <sup>E</sup>	<b>11.0%</b>				
		6.8%	6.0%	6.8%	5.5%	3.9%	3.4%	1.0%	.2%	3.9%	.7%	<b>3.0%</b>	<b>5.0%</b>	Retained to Com Eq	<b>4.5%</b>				
		47%	50%	47%	52%	61%	63%	85%	96%	58%	88%	<b>66%</b>	<b>53%</b>	All Div'ds to Net Prof	<b>59%</b>				

**ELECTRIC OPERATING STATISTICS**

	2013	2014	2015
% Change Retail Sales (KWH)	+5	+2	+5
Avg. Indust. Use (MWH)	NA	NA	NA
Avg. Indust. Revs. per KWH (c)	9.28	9.98	9.73
Capacity at Peak (Mw)	NMF	NMF	NMF
Peak Load, Summer (Mw)	NMF	NMF	NMF
Annual Load Factor (%)	NMF	NMF	NMF
% Change Customers (yr-end)	+3	+6	+7

Fixed Charge Cov. (%) 223 304 189

**BUSINESS:** PG&E Corporation is a holding company for Pacific Gas and Electric Company and nonutility subsidiaries. Supplies electricity and gas to most of northern and central California. Has 5.3 million electric and 4.4 million gas customers. Electric revenue breakdown: residential, 38%; commercial, 40%; industrial, 12%; agricultural, 9%; other, 1%. Generating sources: nuclear, 23%; gas, 9%; hydro, 5%; purchased, 63%. Fuel costs: 34% of revenues. <sup>15</sup> reported depreciation rate (utility): 3.8%. Has 23,000 employees. Chairman, President & Chief Executive Officer: Anthony F. Earley, Jr. Incorporated: California. Address: 77 Beale Street, P.O. Box 770000, San Francisco, California 94177. Telephone: 415-973-1000. Internet: www.pgecorp.com.

**PG&E's utility subsidiary has reached a settlement of its general rate case.** Pacific Gas and Electric had filed for rate increases of \$319 million in 2017, \$467 million in 2018, and \$368 million in 2019. The company reached a contested settlement calling for tariff hikes of \$88 million in 2017, \$444 million in 2018, and \$361 million in 2019. The settlement also recommends another \$361 million raise in 2020, but this is one of the contested issues. A final decision is expected in February, with the ruling being retroactive to the start of 2017.

**The Earnings Predictability rating overstates the predictability of PG&E's quarterly profits.** Since a gas pipeline exploded in San Bruno, California in September of 2010, the company has been incurring costs associated with the accident, including unrecovered expenses and capital costs associated with upgrading its gas system. This is why earnings have generally been weak since then. Moreover, PG&E is also recording costs—and booking insurance recoveries—related to a large fire that occurred in 2015 when a tree came in contact with a power line.

**We include all of these expenses and insurance recoveries in our earnings presentation.** Because we figure these costs will be much lower in 2017, we forecast a significant profit recovery next year. We do exclude fines that have been imposed on the company, including one of \$24 million (\$0.05 a share) that PG&E booked in the June quarter of 2016 for poor recordkeeping in the gas division. Our 2016 earnings estimate is within the company's guidance of \$2.83-\$3.15 a share on a GAAP basis. **The share count has risen significantly in recent years.** PG&E has been raising common equity to pay its fines and support its capital spending. The company expects \$800 million in equity needs for the year. Beginning in 2017, PG&E's annual equity requirements will probably be lower. **This timely stock has a dividend yield that is slightly below average, for a utility.** Total return potential to 2019-2021 is unimpressive. Like most utility issues, the recent quotation of PG&E stock is within our 3- to 5-year Target Price Range.

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2013	3672	3776	4175	3975	15598
2014	3891	3952	4939	4308	17090
2015	3899	4217	4550	4167	16833
2016	3974	4169	4557	4200	16900
2017	<b>4200</b>	<b>4400</b>	<b>4800</b>	<b>4400</b>	<b>17800</b>

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2013	.55	.74	.36	.19	1.83
2014	.49	.57	1.71	.27	3.06
2015	.27	.83	.63	.27	2.00
2016	.22	.46	1.60	.62	2.90
2017	.85	.75	1.55	.75	3.90

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2012	.455	.455	.455	.455	1.82
2013	.455	.455	.455	.455	1.82
2014	.455	.455	.455	.455	1.82
2015	.455	.455	.455	.455	1.82
2016	.455	.455	.49	.49	

(A) Diluted EPS. Excl. nonrec. gains (losses): '04, \$6.95; '09, 18c; '11, (68c); '12, (15c); '15, (21c); '16, (5c); gain from disc. ops.: '08, 41c. '13 EPS don't add due to rounding, '14 due to change in shs. Next earnings report due early Nov. (B) Div's historically paid in mid-Jan., Apr., (July), and Oct. Div'd reinvest. plan avail. † Shareholder investment plan avail. (C) Incl. intang. In '15: \$14.29/sh. (D) In mill. (E) Rate base: net orig. cost. Rate allowed on com. eq. in '15: 10.4%; earned on avg. com. eq., '15: 6.0%. Regulatory Climate: Average.

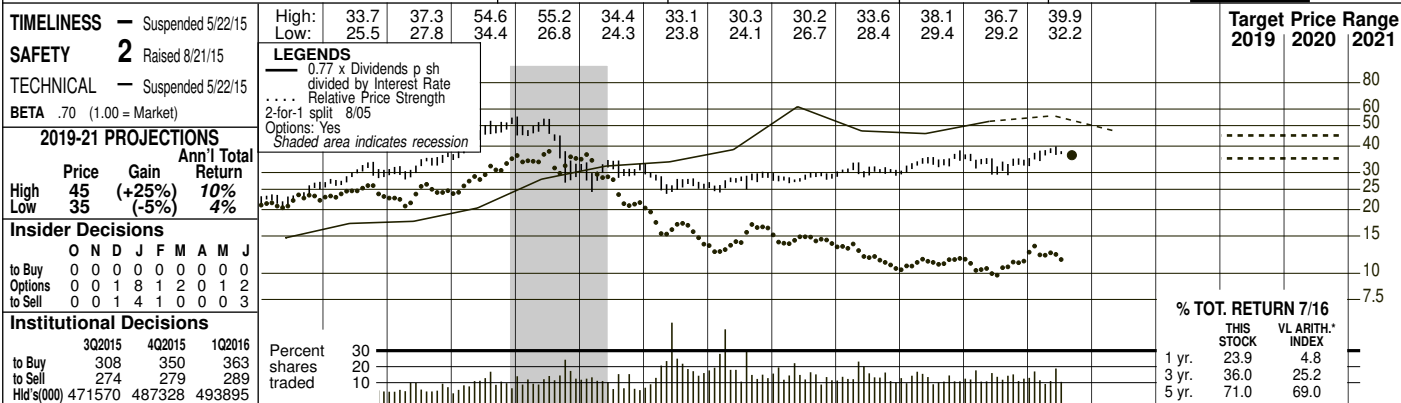
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Company's Financial Strength B+  
Stock's Price Stability 95  
Price Growth Persistence 35  
Earnings Predictability 55

Paul E. Debbas, CFA October 28, 2016



**PPL CORPORATION** NYSE-PPL **RECENT PRICE 36.25** **P/E RATIO 12.8** (Trailing: 13.9 Median: 14.0) **RELATIVE P/E RATIO 0.68** **DIV'D YLD 4.3%** **VALUE LINE**



2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	© VALUE LINE PUB. LLC	19-21
19.59	19.53	16.38	15.75	15.37	16.36	17.92	17.41	21.47	20.03	17.63	22.02	21.11	18.82	17.27	11.38	<b>10.65</b>	<b>10.00</b>	Revenues per sh	10.75
3.32	3.51	3.20	3.60	3.59	3.84	4.26	5.10	4.71	3.47	3.66	4.59	4.84	4.64	4.58	3.78	<b>4.30</b>	<b>3.75</b>	"Cash Flow" per sh	4.25
1.64	1.79	1.54	1.84	1.87	1.92	2.29	2.63	2.45	1.19	2.29	2.61	2.61	2.38	2.38	2.37	<b>2.85</b>	<b>2.15</b>	Earnings per sh <sup>A</sup>	2.50
.53	.53	.72	.77	.82	.96	1.10	1.22	1.34	1.38	1.40	1.40	1.44	1.47	1.49	1.50	<b>1.52</b>	<b>1.58</b>	Div'd Decl'd per sh <sup>B</sup>	1.76
1.59	2.99	2.74	2.17	1.94	2.13	3.62	4.51	3.79	3.25	3.30	4.30	5.34	6.68	6.14	5.24	<b>4.65</b>	<b>4.50</b>	Cap'l Spending per sh	4.50
6.94	6.33	6.71	9.19	11.21	11.62	13.30	14.88	13.55	14.57	16.98	18.72	18.01	19.78	20.47	14.72	<b>16.15</b>	<b>16.80</b>	Book Value per sh <sup>C</sup>	19.25
290.08	293.16	331.47	354.72	378.14	380.15	385.04	373.27	374.58	377.18	483.39	578.41	581.94	630.32	665.85	673.86	<b>677.00</b>	<b>680.00</b>	Common Shs Outst'g <sup>D</sup>	692.00
8.9	12.4	11.1	10.6	12.5	15.1	14.1	17.3	17.6	NMF	11.9	10.5	10.9	12.8	14.1	13.9	<b>10.65</b>	<b>10.00</b>	Avg Ann'l P/E Ratio	16.0
.58	.64	.61	.60	.66	.80	.76	.92	1.06	NMF	.76	.66	.69	.72	.74	.70	<b>1.52</b>	<b>1.58</b>	Relative P/E Ratio	1.00
3.6%	2.4%	4.2%	4.0%	3.5%	3.3%	3.4%	2.7%	3.1%	4.5%	5.1%	5.1%	5.1%	4.8%	4.4%	4.5%	<b>4.3%</b>	<b>4.3%</b>	Avg Ann'l Div'd Yield	4.4%

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	© VALUE LINE PUB. LLC	19-21
6899.0	6498.0	8044.0	7556.0	8521.0	12737	12286	11860	11499	7669.0	<b>7200</b>	<b>6800</b>	Revenues (\$mill)	7400						
899.0	1031.0	940.0	465.0	1009.0	1456.0	1536.0	1541.0	1583.0	1603.0	<b>1925</b>	<b>1475</b>	Net Profit (\$mill)	1745						
23.2%	20.7%	31.8%	21.8%	22.0%	31.0%	26.2%	23.1%	33.0%	22.5%	<b>26.5%</b>	<b>26.5%</b>	Income Tax Rate	26.5%						
--	--	--	1.5%	9.5%	3.5%	4.0%	4.1%	3.7%	2.8%	1.6%	<b>1.0%</b>	<b>2.0%</b>	AFUDC % to Net Profit	1.0%					
55.4%	54.1%	57.1%	55.2%	59.0%	61.9%	64.1%	62.3%	58.0%	65.2%	<b>63.5%</b>	<b>63.5%</b>	Long-Term Debt Ratio	62.0%						
42.2%	43.6%	40.5%	42.5%	39.8%	37.2%	35.9%	37.7%	42.0%	34.8%	<b>36.5%</b>	<b>36.5%</b>	Common Equity Ratio	38.0%						
12151	12747	12529	12940	20621	29071	29205	33058	32484	28482	<b>30050</b>	<b>31425</b>	Total Capital (\$mill)	35200						
12069	12605	12416	13174	20858	27266	30032	33087	34597	30382	<b>32550</b>	<b>34550</b>	Net Plant (\$mill)	40100						
9.3%	9.8%	9.2%	5.2%	6.1%	6.5%	7.0%	6.2%	6.5%	7.1%	<b>8.0%</b>	<b>8.0%</b>	Return on Total Cap'l	6.5%						
16.6%	17.6%	17.5%	8.0%	11.9%	13.1%	14.7%	12.4%	11.6%	16.2%	<b>17.5%</b>	<b>13.0%</b>	Return on Shr. Equity	13.0%						
17.3%	18.2%	18.2%	8.1%	12.0%	13.3%	14.6%	12.4%	11.6%	16.2%	<b>17.5%</b>	<b>13.0%</b>	Return on Com Equity <sup>E</sup>	13.0%						
9.3%	10.0%	8.5%	NMF	5.2%	6.4%	6.7%	5.3%	4.5%	6.0%	<b>8.0%</b>	<b>3.5%</b>	Retained to Com Eq	4.0%						
47%	46%	54%	115%	58%	52%	54%	57%	61%	63%	<b>53%</b>	<b>73%</b>	All Div'ds to Net Prof	69%						

**CAPITAL STRUCTURE as of 3/31/16**  
 Total Debt \$19824 mill. Due in 5 Yrs \$3733 mill.  
 LT Debt \$18074 mill. LT Interest \$759 mill.  
 Incl. 23 mill. units 7.75%, \$25 liq. value; 82,000 units 8.23%, \$1000 face value.  
 (LT interest earned: 3.2x)

**Leases, Uncapitalized** Annual rentals \$33 mill.  
**Pension Assets-12/15** \$10852 mill.  
**Oblig** \$12267 mill.

**Pfd Stock** None  
**Common Stock** 676,945,176 shs.  
 as of 4/22/16  
**MARKET CAP: \$25 billion (Large Cap)**

**ELECTRIC OPERATING STATISTICS**

	2013	2014	2015
% Change Retail Sales (KWH)	+1.2	-1.1	-5
Avg. Indust. Use (MWH)	NA	NA	NA
Avg. Indust. Revs. per KWH (c)	NA	NA	NA
Capacity at Peak (Mw)	NA	NA	NA
Peak Load, Winter (Mw)	NA	NA	NA
Annual Load Factor (%)	NA	NA	NA
% Change Customers (yr-end)	NA	NA	NA

Fixed Charge Cov. (%) 288 309 321

**ANNUAL RATES** Past 10 Yrs. Past 5 Yrs. Est'd '13-'15 of change (per sh)

	2013	2014	2015	2016	2017
Revenues	--	-4.5%	NMF		
"Cash Flow"	1.5%	2.0%	NMF		
Earnings	2.5%	4.0%	NMF		
Dividends	5.5%	1.5%	3.0%		
Book Value	5.5%	4.0%	NMF		

**QUARTERLY REVENUES (\$ mill.)**

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2013	2457	3450	3105	2848	11860
2014	1194	2833	3449	4023	11499
2015	2230	1781	1878	1780	7669
2016	2011	1785	1754	1650	7200
2017	1900	1600	1700	1600	6800

**EARNINGS PER SHARE <sup>A</sup>**

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2013	.65	.63	.62	.46	2.38
2014	.50	.32	.73	.82	2.38
2015	.82	.37	.59	.60	2.37
2016	.71	.71	.90	.53	2.85
2017	.70	.45	.55	.45	2.15

**QUARTERLY DIVIDENDS PAID <sup>B</sup>**

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2012	.35	.36	.36	.36	1.43
2013	.36	.3675	.3675	.3675	1.46
2014	.3675	.3725	.3725	.3725	1.49
2015	.3725	.3725	.3725	.3775	1.50
2016	.3775	.38	.38		

**BUSINESS:** PPL Corporation (formerly PP&L Resources, Inc.) is a holding company for PPL Electric Utilities (formerly Pennsylvania Power & Light Company), which distributes electricity to 1.4 million customers in eastern & central PA. Acq'd Kentucky Utilities and Louisville Gas and Electric (1.2 million customers) 11/10. Has electric distribution sub. in U.K. (7.8 million customers). Sold gas distribution subsidiary in '08. Spun off power generating subsidiary in '15. The company no longer breaks out data on electric operating statistics. Fuel costs: 22% of revs. '15 reported deprec. rate: 2.6%. Has 12,800 employees. Chairman, President & CEO: William H. Spence, Inc.: PA. Address: Two North Ninth St., Allentown, PA 18101-1179. Tel.: 800-345-3085. Internet: www.pplweb.com.

**Because PPL Corporation owns utilities in the United Kingdom, some investors are worried about the aftereffects of Brexit on the company.** PPL stock was the only electric utility to decline immediately after the vote on June 23rd, and year to date the equity is one of the few in this industry that has risen less than 10%. Investors are concerned about the sharp decline in the value of the pound versus the dollar, and about the possible negative effect on the state of the economy in the U.K. However, PPL hedges most its currency exposure, and regulatory rules will make its utilities whole for any volume shortfall over the next seven years. In fact, PPL's hedges were \$450 million in the money following Brexit, so in July management monetized \$310 million of this, and re-established hedges based on \$1.30/pound. This will hurt the translation of U.K. profits into dollars, but even so, we think the market overreacted. We include the effects of currency hedges in our earnings presentation because they are ongoing. They added \$0.19 to share net in the first half of 2016, and we estimate another \$0.30 benefit in the third period.

**Earnings are likely to decline in 2017.** That's mainly because of the re-establishment of hedges, but PPL's U.K. profits were expected to fall anyway due to lower incentive revenues. The company's targeted range for next year is \$2.05-\$2.25 a share, and from this base, the company's goal is 5%-6% annual profit growth through 2020.

**The Kentucky regulators approved a \$1 billion environmental compliance plan.** PPL's utilities in the state will recover these expenditures through 2023 via a regulatory mechanism, instead of filing a general rate case. This will help the company achieve its earnings growth goal.

**PPL stock has a dividend yield that is about a percentage point above the utility average.** We project modest dividend growth over the 3- to 5-year period, but this should be enough to produce a total return that is a cut above the industry average. The stock is unranked for Timeliness because the spinoff of the company's nonregulated generating operation in 2015 has made year-to-year earnings comparisons misleading.

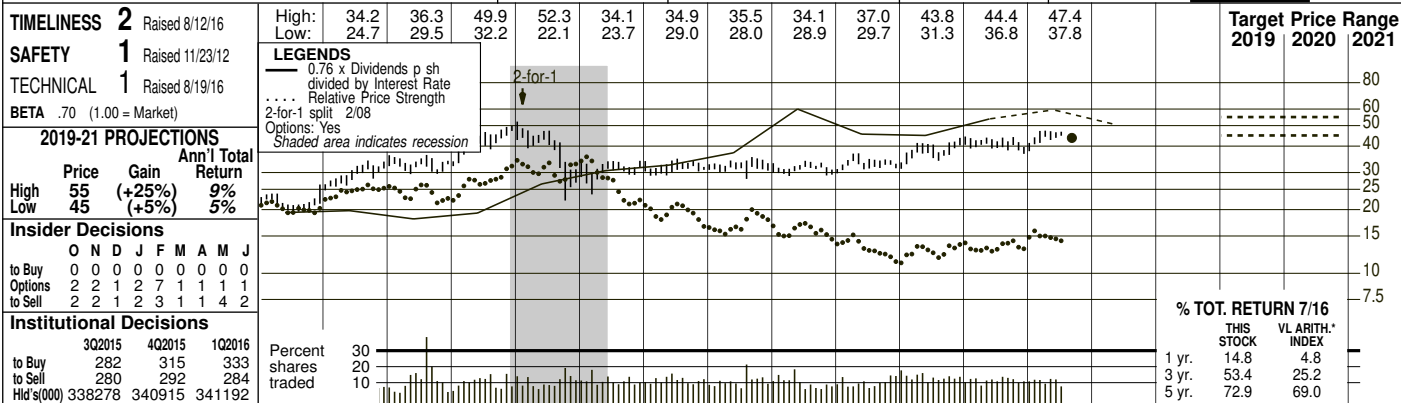
*Paul E. Debbas, CFA August 19, 2016*

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	10
Earnings Predictability	60

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# P.S. ENTERPRISE GP. NYSE-PEG

RECENT PRICE **43.85** P/E RATIO **16.7** (Trailing: 15.8 Median: 13.0) RELATIVE P/E RATIO **0.89** DIV'D YLD **3.8%** VALUE LINE



2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	© VALUE LINE PUB. LLC	19-21
22.83	23.84	18.62	23.54	23.09	24.74	24.07	25.28	27.94	24.57	23.31	22.42	19.33	19.71	21.52	20.61	<b>18.40</b>	<b>18.95</b>	Revenues per sh	21.25
2.71	3.14	3.01	2.92	3.02	3.42	3.91	4.36	4.68	4.98	5.27	5.36	4.87	5.17	5.82	6.15	<b>5.70</b>	<b>6.35</b>	"Cash Flow" per sh	7.50
1.78	1.85	1.88	1.88	1.52	1.79	1.85	2.59	2.90	3.08	3.07	3.11	2.44	2.45	2.99	3.30	<b>2.60</b>	<b>3.00</b>	Earnings per sh <sup>A</sup>	3.50
1.08	1.08	1.08	1.08	1.10	1.12	1.14	1.17	1.29	1.33	1.37	1.37	1.42	1.44	1.48	1.56	<b>1.64</b>	<b>1.72</b>	Div'd Decl'd per sh <sup>B,†</sup>	2.00
2.31	4.99	4.03	2.86	2.64	2.04	2.01	2.65	3.50	3.55	4.27	4.12	5.09	5.56	5.58	7.65	<b>7.30</b>	<b>6.90</b>	Cap'l Spending per sh	5.00
9.61	10.05	8.85	11.71	12.05	11.99	13.35	14.35	15.36	17.37	19.04	20.30	21.31	22.95	24.09	25.86	<b>26.80</b>	<b>28.10</b>	Book Value per sh <sup>C</sup>	32.25
415.94	411.68	450.53	472.27	476.20	502.33	505.29	508.52	506.02	505.99	505.97	505.95	505.89	505.86	505.84	505.28	<b>506.00</b>	<b>506.00</b>	Common Shs Outst'g <sup>D</sup>	506.00
10.3	12.0	10.0	10.6	14.3	16.5	17.8	16.5	13.6	10.0	10.4	10.4	12.8	13.5	12.6	12.4	<b>14.5</b>	<b>14.5</b>	Avg Ann'l P/E Ratio	14.5
.67	.61	.55	.60	.76	.88	.96	.88	.82	.67	.66	.65	.81	.76	.66	.63	<b>.66</b>	<b>.63</b>	Relative P/E Ratio	.90
5.9%	4.9%	5.7%	5.4%	5.1%	3.8%	3.5%	2.7%	3.3%	4.3%	4.3%	4.2%	4.6%	4.4%	3.9%	3.8%	<b>3.9%</b>	<b>3.8%</b>	Avg Ann'l Div'd Yield	4.0%

**CAPITAL STRUCTURE as of 3/31/16**  
 Total Debt \$10250 mill. Due in 5 Yrs \$3755 mill.  
 LT Debt \$9676 mill. LT Interest \$393 mill.  
 (LT interest earned: 7.4x)

Leases, Uncapitalized Annual rentals \$29 mill.

Pension Assets-12/15 \$5039 mill. Oblig \$5522 mill.

Pfd Stock None

Common Stock 505,929,329 shs. as of 4/19/16  
 MARKET CAP: \$22 billion (Large Cap)

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017		
12164	12853	14139	12431	11793	11343	9781.0	9968.0	10886	10415	<b>9300</b>	<b>9600</b>	Revenues (\$mill)	10750						
934.0	1323.0	1477.0	1567.0	1557.0	1577.0	1239.0	1243.0	1518.0	1679.0	<b>1325</b>	<b>1535</b>	Net Profit (\$mill)	1755						
36.6%	44.5%	45.9%	42.3%	40.5%	40.4%	36.2%	39.5%	38.2%	37.4%	<b>36.5%</b>	<b>37.0%</b>	Income Tax Rate	37.0%						
4.7%	2.7%	3.2%	3.8%	5.5%	2.7%	4.8%	4.6%	4.5%	5.5%	<b>5.0%</b>	<b>5.0%</b>	AFUDC % to Net Profit	3.0%						
60.3%	54.0%	50.5%	46.3%	44.8%	42.1%	38.3%	40.4%	40.4%	40.3%	<b>41.0%</b>	<b>41.5%</b>	Long-Term Debt Ratio	44.0%						
39.2%	45.5%	49.0%	53.2%	55.2%	57.9%	61.7%	59.6%	59.6%	59.7%	<b>59.0%</b>	<b>58.5%</b>	Common Equity Ratio	56.0%						
17197	16041	15856	16513	17452	17731	17467	19470	20446	21900	<b>23000</b>	<b>24350</b>	Total Capital (\$mill)	29200						
13002	13275	14433	15440	16390	17849	19736	21645	23589	26539	<b>28750</b>	<b>30625</b>	Net Plant (\$mill)	33000						
7.7%	10.4%	11.2%	11.0%	10.4%	10.2%	8.1%	7.5%	8.4%	8.6%	<b>6.5%</b>	<b>7.0%</b>	Return on Total Cap'l	7.0%						
13.7%	17.9%	18.8%	17.7%	16.2%	15.4%	11.5%	10.7%	12.5%	12.9%	<b>10.0%</b>	<b>11.0%</b>	Return on Shr. Equity	10.5%						
13.8%	18.1%	19.0%	17.8%	16.2%	15.4%	11.5%	10.7%	12.5%	12.9%	<b>10.0%</b>	<b>11.0%</b>	Return on Com Equity <sup>E</sup>	10.5%						
5.3%	9.9%	10.5%	10.1%	9.0%	8.6%	4.8%	4.4%	6.3%	6.8%	<b>3.5%</b>	<b>4.5%</b>	Retained to Com Eq	4.5%						
62%	45%	45%	43%	45%	44%	58%	59%	49%	47%	<b>63%</b>	<b>57%</b>	All Div'ds to Net Prof	58%						

**ELECTRIC OPERATING STATISTICS**

	2013	2014	2015
% Change Retail Sales (KWH)	.9	-1.3	+2.4
Avg. Indust. Use (MWH)	NA	NA	NA
Avg. Indust. Revs. per KWH(c)	NA	NA	NA
Capacity at Peak (Mw)	NA	NA	NA
Peak Load, Summer (Mw)	10414	9474	9595
Annual Load Factor (%)	NA	NA	NA
% Change Customers (avg.)	NA	NA	NA

**BUSINESS:** Public Service Enterprise Group Incorporated is a holding company for Public Service Electric and Gas Company (PSE&G), which serves 2.2 million electric and 1.8 million gas customers in New Jersey, and PSEG Power LLC, a nonregulated power generator with nuclear, gas, and coal-fired plants in the Northeast. PSEG Energy Holdings is involved in renewable energy.

The company no longer breaks out data on electric and gas operating statistics. Fuel costs: 31% of revenues. '15 reported depreciation rate (utility): 2.5%. Has 12,700 employees. Chairman, President & Chief Executive Officer: Dr. Ralph Izzo, Inc.: New Jersey. Address: 80 Park Plaza, P.O. Box 1171, Newark, New Jersey 07101-1171. Telephone: 973-430-7000. Internet: www.pseg.com.

**The majority of Public Service Enterprise Group's earnings is coming from its regulated utility business.** Public Service Electric and Gas is hardening its electric and gas system through programs that will see the utility spend an expected \$2.1 billion. Most of these expenditures are recovered in rates concurrently, but some will be recouped through a general rate case that PSE&G will file in November of 2017. Capital spending on electric transmission also boosts utility income annually through a formula rate plan. This spending is especially important because the allowed return on equity for transmission, at 11.68%, is higher than that for distribution, at 10.3%. The utility is finding other investment opportunities, as well.

**The nonregulated side of the company's business isn't faring as well.** PSEG Power, the company's major non-utility arm, is still solidly profitable and is generating cash. However, low power prices and sluggish demand for electricity are hurting this operation. Currently, unplanned outages at the two Salem nuclear units are hurting this division, as well. We have lowered our 2016 earnings estimate by \$0.30 a share and our 2017 profit forecast by \$0.05 a share. The 2016 change reflects, in part, a mark-to-market accounting loss of \$0.20 a share that PSEG booked in the June quarter, but also reflects a lower expectation of income from PSEG Power.

Cal-endar	QUARTERLY REVENUES (\$ mill.)				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2013	2786	2310	2554	2318	9968.0
2014	3223	2249	2641	2773	10886
2015	3135	2314	2688	2278	10415
2016	2616	1905	2500	2279	9300
2017	<b>2750</b>	<b>2000</b>	<b>2550</b>	<b>2300</b>	<b>9600</b>

Cal-endar	EARNINGS PER SHARE <sup>A</sup>				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2013	.63	.66	.77	.39	2.45
2014	.76	.42	.87	.94	2.99
2015	1.15	.68	.87	.60	3.30
2016	.93	.37	.80	.50	2.60
2017	<b>.95</b>	<b>.65</b>	<b>.85</b>	<b>.55</b>	<b>3.00</b>

Cal-endar	QUARTERLY DIVIDENDS PAID <sup>B,†</sup>				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2012	.355	.355	.355	.355	1.42
2013	.36	.36	.36	.36	1.44
2014	.37	.37	.37	.37	1.48
2015	.39	.39	.39	.39	1.56
2016	.41	.41			

**Company's Financial Strength** A++  
**Stock's Price Stability** 95  
**Price Growth Persistence** 20  
**Earnings Predictability** 70

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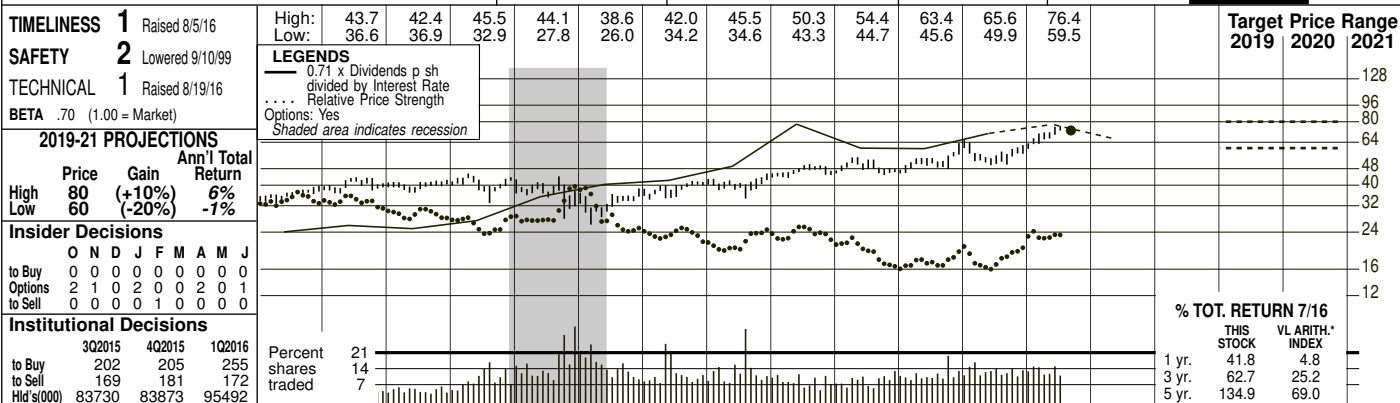
(A) Diluted EPS. Excl. nonrecr. gain (losses): '02, (\$1.30); '05, (3c); '06, (35c); '08, (96c); '09, 6c; '11, (34c); '12, 7c; gains (loss) from disc. ops.: '05, (33c); '06, 12c; '07, 3c; '08, 40c; '11, 13c. Next earnings report due late Oct. (B) Div'ds historically paid in late Mar., June, Sept., and Dec. (C) Div'd reinvestment plan avail. † Shareholder investment plan avail. (C) Incl. intang. In '15: \$6.56/sh. (D) In mill., adj. for split. (E) Rate base: Net orig. cost. Rate allowed on com. eq. in '10: 10.3%; earned on avg. com. eq., '15: 13.2%. Reg. Climate: Avg.

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# SCANA CORP. NYSE:SCG

RECENT PRICE **72.75** P/E RATIO **17.9** (Trailing: 19.7; Median: 14.0) RELATIVE P/E RATIO **0.95** DIV'D YLD **3.3%** VALUE LINE



2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	© VALUE LINE PUB. LLC	19-21
32.78	32.95	26.65	30.85	34.53	41.66	39.11	39.61	45.16	34.35	36.10	33.95	31.63	31.88	34.70	30.65	<b>27.95</b>	<b>28.60</b>	Revenues per sh	31.75
4.43	4.55	4.56	4.95	5.28	7.43	5.68	5.73	5.86	5.63	5.91	6.01	6.30	6.53	6.91	6.70	<b>6.75</b>	<b>7.05</b>	"Cash Flow" per sh	8.25
2.12	2.15	2.38	2.50	2.67	2.78	2.59	2.74	2.95	2.85	2.98	2.97	3.15	3.39	3.79	3.81	<b>3.95</b>	<b>4.15</b>	Earnings per sh <sup>A</sup>	4.75
1.15	1.20	1.30	1.38	1.46	1.56	1.68	1.76	1.84	1.88	1.90	1.94	1.98	2.03	2.10	2.18	<b>2.30</b>	<b>2.42</b>	Div'd Decl'd per sh <sup>B</sup>	2.80
3.28	4.99	6.41	6.94	4.86	3.38	4.52	6.21	7.68	7.41	6.87	6.81	8.16	7.84	7.65	8.07	<b>11.95</b>	<b>14.80</b>	Cap'l Spending per sh	8.75
19.40	20.95	19.64	20.82	21.78	23.35	24.39	25.37	25.85	27.63	29.05	29.94	31.47	33.08	34.95	38.09	<b>39.70</b>	<b>41.75</b>	Book Value per sh <sup>C</sup>	47.75
104.73	104.73	110.83	110.74	112.52	114.67	116.67	116.67	117.78	123.34	127.45	129.88	132.01	141.00	142.70	142.90	<b>143.00</b>	<b>145.00</b>	Common Shs Outst'g <sup>D</sup>	150.00
12.5	12.6	12.2	13.0	13.6	14.4	15.4	15.0	12.7	11.6	12.9	13.7	14.8	14.4	13.7	14.7	<i>Bold figures are Value Line estimates</i>		Avg Ann'l P/E Ratio	14.5
.81	.65	.67	.74	.72	.77	.83	.80	.76	.77	.82	.86	.94	.81	.72	.75			Relative P/E Ratio	.90
4.3%	4.4%	4.5%	4.2%	4.0%	3.9%	4.2%	4.3%	4.9%	5.7%	4.9%	4.8%	4.2%	4.2%	4.1%	3.9%			Avg Ann'l Div'd Yield	4.0%

**CAPITAL STRUCTURE as of 3/31/16**  
 Total Debt \$6912 mill. Due in 5 Yrs \$2148 mill.  
 LT Debt \$5879 mill. LT Interest \$331 mill.  
 (LT interest earned: 3.4x)

**Leases, Uncapitalized** Annual rentals \$10 mill.  
**Pension Assets-12/15** \$781.7 mill.  
**Oblig** \$855.4 mill.

**Pfd Stock** None

**Common Stock** 142,916,917 shs.  
 as of 4/30/16  
**MARKET CAP: \$10 billion (Large Cap)**

**ELECTRIC OPERATING STATISTICS**

	2013	2014	2015
% Change Retail Sales (KWH)	+3	+4.7	-9
Avg. Indust. Use (MWH)	8180	NA	NA
Avg. Indust. Resv. per KWH (c)	7.27	NA	NA
Capacity at Yearend (Mw)	5237	5237	5234
Peak Load, Summer (Mw)	4574	4853	4970
Annual Load Factor (%)	58.8	NA	NA
% Change Customers (yr-end)	+1.2	+1.4	+1.5

**ANNUAL RATES** Past 10 Yrs. Past 5 Yrs. Est'd '13-'15 of change (per sh)

	10 Yrs.	5 Yrs.	Est'd '13-'15
Revenues	-1.0%	-3.5%	-5%
"Cash Flow"	1.5%	3.0%	3.5%
Earnings	3.5%	4.5%	4.5%
Dividends	3.5%	2.5%	5.0%
Book Value	5.0%	5.0%	5.0%

**QUARTERLY REVENUES (\$ mill.)**

Calendar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2013	1311	1016	1051	1117	4495.0
2014	1590	1026	1121	1214	4951.0
2015	1389	967	1068	956	4380.0
2016	1172	905	950	973	4000
2017	<b>1200</b>	<b>950</b>	<b>1000</b>	<b>1000</b>	<b>4150</b>

**EARNINGS PER SHARE <sup>A</sup>**

Calendar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2013	1.11	.60	.94	.73	3.39
2014	1.37	.68	1.01	.73	3.79
2015	1.39	.69	1.04	.69	3.81
2016	1.23	.74	1.20	.78	3.95
2017	<b>1.35</b>	<b>.75</b>	<b>1.25</b>	<b>.80</b>	<b>4.15</b>

**QUARTERLY DIVIDENDS PAID <sup>B</sup>**

Calendar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2012	.485	.495	.495	.495	1.97
2013	.495	.507	.507	.507	2.02
2014	.508	.525	.525	.525	2.08
2015	.525	.545	.545	.545	2.16
2016	.545	.575	.575		

**BUSINESS:** SCANA Corporation is a holding company for South Carolina Electric & Gas Company, which supplies electricity to 706,000 customers in central, southern, and southwestern South Carolina. Supplies gas service to 1.3 million customers in North Carolina, South Carolina, and Georgia. Electric revenue breakdown: residential, 44%; commercial, 33%; industrial, 18%; other, 5%. Generating sources: coal, 48%; oil & gas, 28%; nuclear, 19%; hydro, 3%; purchased, 2%. Fuel costs: 46% of revenues. '15 reported depreciation rate: 2.6%. Has 5,800 employees. Chairman, CEO & President: Kevin B. Marsh. Incorporated: South Carolina. Address: 100 SCANA Parkway, Cayce, South Carolina 29033. Telephone: 803-217-9000. Internet: www.scana.com.

**SCANA's electric utility subsidiary has made a decision regarding its nuclear construction project.** South Carolina Electric & Gas is building two units at the site of an existing unit. The new facilities are scheduled to come on line in August, 2019 and August, 2020. Cost overruns and construction delays prompted SCE&G to choose the fixed-price option of \$7.6 billion for the project. The contractor will swallow any costs that exceed this amount. However, the selection of this option has increased the company's expected costs by \$852 million. This requires the approval of the Public Service Commission of South Carolina. Its ruling is likely in late November.

**SCE&G has filed a rate request under the state's Base Load Review Act.** This regulatory law enables the utility to receive rate relief annually for its construction work in progress for the aforementioned nuclear construction. SCE&G filed for a hike of \$74.2 million (3.1%), and will earn a 10.5% return on equity. The utility is asking for the raise to take effect on November 27th.

**Gas rate cases are pending.** In North

Carolina, PSNC Energy is seeking a \$41.6 million (9.7%) tariff increase, based on a 10.6% return on a 53.5% common-equity ratio. It also wants the commission to grant a regulatory mechanism that allows ongoing recovery of capital expenditures for pipeline integrity programs. The utility earned an ROE of just 8.3% in the 12-month period through June 30th. PSNC is hoping to receive an order in time for new rates to take effect at the start of November. In South Carolina, SCE&G is asking for a modest boost of \$4 million because it is underearning its allowed ROE by more than half of a percentage point.

**Rate relief should enable earnings to advance in 2016 and 2017.** The annual increases under the aforementioned Base Load Review Act should help. We also assume reasonable regulatory treatment in the gas rate applications. We have raised our 2016 share-net estimate by a nickel, to \$3.95, because June-quarter weather patterns were more favorable than normal.

**This timely stock has a dividend yield that is average for a utility.** Total return potential to 2019-2021 is low.

*Paul E. Debbas, CFA August 19, 2016*

(A) Diluted egs. Excl. nonrec. gains (losses): '00, 23c; '01, \$3.00; '02, (\$3.72); '03, 31c; '04, (23c); '05, 3c; '06, 9c; '15, \$1.41. '13 EPS don't add due to rounding. Next earnings report due late Oct. (B) Div'ds historically paid in early Jan., Apr., July, & Oct. ■ Div'd reinvestment plan avail. (C) Incl. intang. In '15: \$13.55/sh. (D) In mill. (E) Rate base: Net orig. cost. Rate allowed on com. eq. in SC: 10.25% elec. in '13, 10.25% gas in '05; in NC: 10.6% in '08; earned on avg. com. eq., '15: 10.6%. Regulatory Climate: Above Average.

**Company's Financial Strength** B++  
**Stock's Price Stability** 100  
**Price Growth Persistence** 55  
**Earnings Predictability** 100

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# SEMPRA ENERGY NYSE-SRE

RECENT PRICE **105.06** P/E RATIO **25.8** (Trailing: 22.3; Median: 13.0) RELATIVE P/E RATIO **1.40** DIV'D YLD **3.1%** VALUE LINE

**TIMELINESS** 3 Lowered 10/28/16  
**SAFETY** 2 Raised 7/29/16  
**TECHNICAL** 2 Lowered 9/30/16  
**BETA** .80 (1.00 = Market)

High: 47.9 57.3 66.4 63.0 57.2 57.2 56.0 72.9 93.0 116.3 116.2 114.7  
 Low: 35.5 42.9 50.9 34.3 36.4 43.9 44.8 54.7 70.6 86.7 89.4 86.7

**LEGENDS**  
 0.97 x Dividends p sh divided by Interest Rate  
 Relative Price Strength  
 Options: Yes  
 Shaded area indicates recession

**2019-21 PROJECTIONS**

Price	Gain	Ann'l Total Return
High 155	(+50%)	13%
Low 115	(+10%)	6%

**Insider Decisions**

	D	J	F	M	A	M	J	J	A
to Buy	0	0	0	0	0	0	0	0	0
Options	5	0	1	0	4	1	1	1	1
to Sell	0	2	0	2	0	1	1	0	2

**Institutional Decisions**

	4Q2015	1Q2016	2Q2016
to Buy	265	270	266
to Sell	244	254	249
Hlds(000)	185015	203184	199665

Percent shares traded: 24, 16, 8

% TOT. RETURN 9/16  
 THIS STOCK: 1 yr. 14.0, 3 yr. 35.9, 5 yr. 140.1  
 VL ARITH. INDEX: 17.7, 23.7, 108.1

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	© VALUE LINE PUB. LLC	19-21
35.38	39.27	29.38	34.81	40.18	45.64	44.89	43.79	44.21	32.88	37.44	41.83	39.80	43.18	44.80	41.20	<b>39.05</b>	<b>39.90</b>	Revenues per sh	<b>48.25</b>
4.91	5.39	5.71	5.56	6.58	5.96	6.74	6.93	7.40	7.94	7.76	8.58	8.92	9.41	9.41	10.32	<b>9.20</b>	<b>10.95</b>	"Cash Flow" per sh	<b>14.50</b>
2.06	2.55	2.79	3.01	3.93	3.52	4.23	4.26	4.43	4.78	4.02	4.47	4.35	4.22	4.63	5.23	<b>3.80</b>	<b>5.15</b>	Earnings per sh <sup>A</sup>	<b>7.50</b>
1.00	1.00	1.00	1.00	1.00	1.16	1.20	1.24	1.37	1.56	1.56	1.92	2.40	2.52	2.64	2.80	<b>3.02</b>	<b>3.28</b>	Div'd Decl'd per sh <sup>B</sup>	<b>4.00</b>
3.76	5.22	5.92	4.63	4.62	5.46	7.28	7.70	8.47	7.76	8.58	11.85	12.20	10.52	12.68	12.71	<b>14.15</b>	<b>10.30</b>	Cap'l Spending per sh	<b>11.25</b>
12.35	13.17	13.79	17.17	20.78	23.95	28.66	31.87	32.75	36.54	37.54	41.00	42.42	45.03	45.98	47.56	<b>47.95</b>	<b>49.70</b>	Book Value per sh <sup>C</sup>	<b>54.75</b>
201.90	204.48	204.91	226.60	234.18	257.19	262.01	261.21	243.32	246.51	240.45	239.93	242.37	244.46	246.33	248.30	<b>251.00</b>	<b>253.00</b>	Common Shs Outst'g <sup>D</sup>	<b>242.00</b>
9.4	9.7	8.2	9.0	8.6	11.8	11.5	14.0	11.8	10.1	12.6	11.8	14.9	19.7	21.9	19.7	<b>14.15</b>	<b>10.30</b>	Avg Ann'l P/E Ratio	<b>18.0</b>
.61	.50	.45	.51	.45	.63	.62	.74	.71	.67	.80	.74	.95	1.11	1.15	1.00	<b>1.15</b>	<b>1.00</b>	Relative P/E Ratio	<b>1.15</b>
5.2%	4.1%	4.4%	3.7%	2.9%	2.8%	2.5%	2.1%	2.6%	3.2%	3.1%	3.6%	3.7%	3.0%	2.6%	2.7%	<b>2.7%</b>	<b>2.7%</b>	Avg Ann'l Div'd Yield	<b>3.0%</b>

**CAPITAL STRUCTURE as of 6/30/16**  
 Total Debt \$15862 mill. Due in 5 Yrs \$6769 mill.  
 LT Debt \$13178 mill. LT Interest \$566 mill.  
 Incl. \$245 mill. capitalized leases.  
 (LT interest earned: 3.4x)

**Leases, Uncapitalized** Annual rentals \$71 mill.  
**Pension Assets-12/15** \$2484 mill.  
**Oblig.** \$3649 mill.

**Pfd Stock** \$20 mill. **Pfd Div'd** \$1.2 mill.  
 811,073 shs. 6% cum., \$25 par.  
**Common Stock** 249,801,432 shs.  
 as of 7/29/16

**MARKET CAP: \$26 billion (Large Cap)**

11761	11438	10758	8106.0	9003.0	10036	9647.0	10557	11035	10231	<b>9800</b>	<b>10100</b>	Revenues (\$mill)	<b>11650</b>
1118.0	1135.0	1123.0	1193.0	1008.0	1088.0	1079.0	1060.0	1162.0	1314.0	<b>1010</b>	<b>1410</b>	Net Profit (\$mill)	<b>1960</b>
31.3%	33.6%	29.2%	30.5%	26.5%	25.3%	18.2%	26.5%	19.7%	19.2%	<b>29.5%</b>	<b>29.0%</b>	Income Tax Rate	<b>28.0%</b>
7.2%	11.5%	13.2%	10.6%	11.3%	15.2%	17.2%	11.2%	14.4%	15.3%	<b>21.0%</b>	<b>11.0%</b>	AFUDC % to Net Profit	<b>8.0%</b>
37.0%	34.8%	44.5%	44.8%	49.4%	50.4%	52.8%	50.5%	51.7%	52.6%	<b>53.5%</b>	<b>54.0%</b>	Long-Term Debt Ratio	<b>58.0%</b>
61.4%	63.7%	54.2%	54.1%	49.6%	49.2%	46.7%	49.4%	48.2%	47.3%	<b>46.5%</b>	<b>46.0%</b>	Common Equity Ratio	<b>42.0%</b>
12229	13071	14692	16646	18186	20015	22002	22281	23513	24963	<b>25975</b>	<b>27375</b>	Total Capital (\$mill)	<b>31600</b>
13175	14884	16865	18281	19876	23572	25191	25460	25902	28039	<b>30250</b>	<b>31375</b>	Net Plant (\$mill)	<b>34600</b>
10.3%	9.6%	8.5%	8.3%	6.8%	6.7%	6.1%	6.0%	6.1%	6.4%	<b>5.0%</b>	<b>6.5%</b>	Return on Total Cap'l	<b>7.5%</b>
14.5%	13.3%	13.8%	13.0%	10.9%	10.9%	10.4%	9.6%	10.2%	11.1%	<b>8.0%</b>	<b>10.5%</b>	Return on Shr. Equity	<b>14.0%</b>
14.8%	13.5%	14.0%	13.1%	11.1%	11.0%	10.4%	9.6%	10.3%	11.1%	<b>8.0%</b>	<b>10.5%</b>	Return on Com Equity <sup>E</sup>	<b>14.0%</b>
11.0%	9.7%	9.7%	9.3%	7.0%	6.5%	5.1%	4.1%	5.0%	5.8%	<b>1.5%</b>	<b>4.0%</b>	Retained to Com Eq	<b>6.5%</b>
26%	29%	31%	29%	37%	41%	52%	58%	52%	48%	<b>79%</b>	<b>63%</b>	All Div'ds to Net Prof	<b>53%</b>

**BUSINESS:** Sempra Energy is a holding co. for San Diego Gas & Electric Company, which sells electricity & gas mainly in San Diego County, & Southern California Gas Company, which distributes gas to most of Southern California. Customers: 1.4 mill. electric, 6.6 mill. gas. Elec. rev. breakdown: residential, 41%; commercial, 42%; industrial, 10%; other, 7%. Purchases most of its power; the rest is gas. Has subs. in gas pipeline & storage, power generation, & liquefied natural gas. Sold commodities business in '10. Power costs: 37% of revs. '15 reported deprec. rates: 2.7%-5.7%. Has 17,400 employees. Chairman and CEO: Debra L. Reed. President: Mark A. Snell. Inc.: CA. Address: 488 8th Avenue, San Diego, CA 92101. Tel.: 619-696-2000. Internet: www.sempra.com.

**Sempra Energy is investing in Mexico.** The company's Mexico subsidiary, IEnova, paid \$1.1 billion for its partner's 50% stake in a midstream gas joint venture. IEnova raised the funds through a \$1.6 billion sale of common stock. Separately, IEnova is spending \$1 billion on renewable-energy projects and has bids pending for an electric transmission project (estimated investment of \$1.2 billion) and a gas pipeline (estimated investment of \$600 million). IEnova is also selling a gas-fired power plant, but will have to take a nonrecurring charge estimated at \$0.16-\$0.29 a share against third-quarter results because the facility's market value is below its book value.

**The company has had some transactions in the United States, too.** In the second quarter, Sempra completed the sale of its 25% stake in the Rockies Express pipeline, raising \$443 million in cash. Related to the sale, the company booked a \$123 million aftertax loss (included in our earnings presentation) in the quarter stemming from the permanent release of pipeline capacity. It had already taken a \$27 million aftertax writedown in the first period. In the third quarter, Sempra sold its gas utilities in the Southeast for \$323 million. It expects to record an aftertax gain of about \$70 million. Also in the third period, the company paid \$22 million for a windfarm that is under development in Michigan.

**Despite a probable bottom-line downturn in 2016, Sempra's long-term prospects for earnings growth are good.** The aforementioned \$123 million loss is a negative factor in this year's results. However, Sempra's nonutility investments will boost the company's earning power, and the income of its utilities rises as their rate base expands. Most notably, however, a project to turn a liquefied natural gas import terminal to an export facility is on budget and on schedule for completion in 2018. Net profit from this is projected at \$300 million-\$350 million in 2019, the first full year of operation.

**Sempra stock offers strong dividend growth potential over the 3- to 5-year period.** This should produce a long-term total return that compares favorably with other utilities.

Paul E. Debbas, CFA October 28, 2016

(A) Dil. EPS. Excl. nonrec. gains (losses): '05, '17c; '06, (6c); '09, (26c); '10, (\$1.05); '11, \$1.15; '12, (98c); '13, (30c); '15, 14c; '16, (20c); gain (losses) from disc. ops.: '04, (10c); '05, (4c); '06, \$1.21; '07, (10c). '14 EPS don't sum due to rounding. Next yrs. due early Nov.	\$18.11/sh. (D) In mill. (E) Rate base: Net orig. cost. Rate allowed on com. eq.: SDG&E in '13: 10.3%; SoCalGas in '13: 10.1%; earn. on avg. com. eq., '15: 11.2%. Regul. Climate: Average.	Company's Financial Strength A Stock's Price Stability 100 Price Growth Persistence 85 Earnings Predictability 90
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# SOUTHERN COMPANY NYSE-SO

RECENT PRICE **52.84** P/E RATIO **18.7** (Trailing: 18.7; Median: 16.0) RELATIVE P/E RATIO **0.99** DIV'D YLD **4.3%** VALUE LINE

<b>TIMELINESS</b> 2 Raised 3/18/16 <b>SAFETY</b> 2 Lowered 2/21/14 <b>TECHNICAL</b> 2 Raised 8/12/16 <b>BETA</b> .55 (1.00 = Market)	High: 36.5 37.4 39.3 40.6 37.6 38.6 46.7 48.6 48.7 Low: 31.1 30.5 33.2 29.8 26.5 30.8 35.7 41.8 40.0	51.3 53.2 54.6 40.3 41.4 46.0	Target Price Range 2019 2020 2021 128 96 80 64 48 40 32 24 16 12		
<b>2019-21 PROJECTIONS</b> Price Gain Ann'l Total High 60 (+15%) 7% Low 45 (-15%) 1%		<b>Institutional Decisions</b> 3Q2015 4Q2015 1Q2016 to Buy 463 495 587 to Sell 398 408 403 Hld's(000) 456226 450436 470025		Percent shares traded 18 12 6	
<b>Insider Decisions</b> O N D J F M A M J to Buy 0 0 0 0 0 1 0 0 0 Options 1 1 0 1 0 3 0 1 1 2 to Sell 1 2 0 3 3 0 1 1 2		<b>% TOT. RETURN 7/16</b> THIS STOCK VL ARITH. INDEX 1 yr. 25.3 4.8 3 yr. 37.4 25.2 5 yr. 67.9 69.0			

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	© VALUE LINE PUB. LLC	19-21
14.78	14.54	14.73	15.31	16.05	18.28	19.24	20.12	22.04	19.21	20.70	20.41	19.06	19.26	20.34	19.18	<b>19.05</b>	<b>21.95</b>	Revenues per sh	<b>24.25</b>
3.89	3.55	3.46	3.53	3.65	4.03	4.01	4.22	4.43	4.43	4.51	4.91	5.18	5.27	5.28	5.47	<b>5.35</b>	<b>5.95</b>	"Cash Flow" per sh	<b>6.50</b>
2.01	1.61	1.85	1.97	2.06	2.13	2.10	2.28	2.25	2.32	2.36	2.55	2.67	2.70	2.77	2.84	<b>2.75</b>	<b>2.95</b>	Earnings per sh <sup>A</sup>	<b>3.50</b>
1.34	1.34	1.36	1.39	1.42	1.48	1.54	1.60	1.66	1.73	1.80	1.87	1.94	2.01	2.08	2.15	<b>2.22</b>	<b>2.30</b>	Div'd Decl'd per sh <sup>B</sup> = †	<b>2.54</b>
3.27	3.75	3.79	2.72	2.85	3.20	4.01	4.65	5.10	5.70	4.85	5.23	5.54	6.16	6.58	6.22	<b>10.40</b>	<b>6.60</b>	Cap'l Spending per sh	<b>7.25</b>
15.69	11.43	12.16	13.13	13.86	14.42	15.24	16.23	17.08	18.15	19.21	20.32	21.09	21.43	21.98	22.59	<b>28.95</b>	<b>29.60</b>	Book Value per sh <sup>C</sup>	<b>32.00</b>
681.16	698.34	716.40	734.83	741.50	741.45	746.27	763.10	777.19	819.65	843.34	865.13	867.77	887.09	907.78	911.72	<b>982.00</b>	<b>984.00</b>	Common Shs Outst'g <sup>D</sup>	<b>990.00</b>
13.2	14.6	14.6	14.8	14.7	15.9	16.2	16.0	16.1	13.5	14.9	15.8	17.0	16.2	16.0	15.8	<b>Bold figures are Value Line estimates</b>		Avg Ann'l P/E Ratio	<b>15.0</b>
.86	.75	.80	.84	.78	.85	.87	.85	.97	.90	.95	.99	1.08	.91	.84	.80			Relative P/E Ratio	<b>.95</b>
5.0%	5.7%	5.0%	4.7%	4.7%	4.4%	4.5%	4.4%	4.6%	5.5%	5.1%	4.6%	4.3%	4.6%	4.7%	4.8%			Avg Ann'l Div'd Yield	<b>4.9%</b>

CAPITAL STRUCTURE as of 3/31/16		2013	2014	2015	BUSINESS:	
Total Debt \$29678 mill. Due in 5 Yrs \$10569 mill.		14356	15353	17127	The Southern Company, through its subs., supplies electricity to 4.6 million customers in GA, AL, FL, and MS. Also has a competitive generation business. Acq'd AGL Resources (renamed Southern Company Gas, 4.5 mill. customers in GA, FL, NJ, IL, VA, & TN) 7/16. Electric rev. breakdown: residential, 38%; commercial, 32%; industrial, 19%; other, 11%. Retail revs. by state: GA, 50%; AL, 34%; FL, 9%; MS, 7%. Generating sources: gas & oil, 44%; coal, 32%; nuclear, 15%; hydro, 3%; purchased, 6%. Fuel costs: 31% of revs. '15 reported depr. rate (utility): 3.0%. Has 32,000 employees. Chairman, President and CEO: Thomas A. Fanning, Inc.: DE. Address: 30 Ivan Allen Jr. Blvd., N.W., Atlanta, GA 30308. Tel.: 404-506-0747. Internet: www.southerncompany.com.	
LT Debt \$26091 mill. LT Interest \$939 mill.		1608.0	1782.0	1807.0		
(LT interest earned: 5.2x)		32.7%	31.9%	33.6%		
Leases, Uncapitalized Annual rentals \$121 mill.		4.8%	9.5%	12.3%		
Pension Assets-12/15 \$9234 mill. Ob \$10542 mill.		50.8%	51.2%	53.9%		
Pfd Stock \$1508 mill. Pfd Div'd \$44 mill.		46.2%	44.9%	42.6%		
Incl. 1 mill. shs. 4.2%-5.44% cum. pfd. (\$100 par);		24618	27608	31174		
1.52 mill. shs. 5.2%-5.83% cum. pfd. (\$1 par);		31092	33327	35878		
2 mill. shs. 6.0% noncum. pfd. (\$25 par); 4 mill. shs.		8.2%	7.9%	7.1%		
5.6%-6.5% noncum. pfd. (\$100 par); 8 mill. shs.		13.3%	13.2%	12.6%		
5.63%-6.5% noncum. pfd. (\$1 par).		13.8%	14.0%	13.1%		
Common Stock 918,258,425 shs.		3.8%	4.3%	3.5%		
MARKET CAP: \$49 billion (Large Cap)		73%	70%	74%		

ELECTRIC OPERATING STATISTICS		2013	2014	2015
% Change Retail Sales (KWH)		+3	+3.3	-7
Avg. Indust. Use (MWH)		3277	3384	3371
Avg. Indust. Revs. per KWH (c)		6.08	6.37	5.88
Capacity at Yearend (Mw)		45502	46549	44223
Peak Load, Summer (Mw) <sup>F</sup>		33557	37234	36794
Annual Load Factor (%)		63.2	59.6	59.9
% Change Customers (yr-end)		+7	+8	+9
Fixed Charge Cov. (%)		423	417	433

**Southern Company completed its acquisition of AGL Resources in mid-2016.** The purchase price was \$7.9 billion in cash. The addition of AGL provides Southern with an entry into the gas business, with 4.5 million customers in seven states. However, because this year's results won't include the seasonally strong first quarter, the deal will be dilutive to share net in 2016. It will probably be accretive next year. We have adjusted our estimates and projections to include AGL, and have raised our 2017 earnings estimate by a nickel a share.

**Southern has another deal pending that would expand its presence in the gas business.** The company has agreed to pay Kinder Morgan \$1.5 billion in cash for a 50% stake in a gas pipeline. The purchase is expected to close later this year.

**Notwithstanding these transactions, Southern is still primarily an electric utility.** Most of the company's income will come from its regulated electric utility operations and its nonregulated power-generating operation, which is similar to a utility because Southern isn't assuming market risk. This subsidiary is increasing its focus on renewable-energy projects, and is making a push to boost its investment in wind facilities.

**Two major projects are under construction.** Mississippi Power's coal-gasification plant has been plagued by delays and cost overruns. Since 2013, the utility has taken writedowns (shown in the footnotes) to reflect the construction costs that will not be recovered in rates. It appears as if the plant is finally nearing completion. Georgia Power is building two units at the site of its Vogtle nuclear station. This project has also had delays and cost overruns, but these have not been nearly as serious as those of Mississippi Power. The Georgia commission is reviewing the Vogtle project after the utility reached a settlement with its contractors that calls for it to assume \$349 million of cost overruns.

ANNUAL RATES	Past 10 Yrs.	Past 5 Yrs.	Est'd '13-'15 to '19-'21
Revenues	1.5%	-1.0%	3.5%
"Cash Flow"	3.5%	3.5%	3.5%
Earnings	3.0%	3.5%	4.0%
Dividends	4.0%	3.5%	3.5%
Book Value	5.0%	4.0%	6.5%

Cal-endar	QUARTERLY REVENUES (mill.)				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2013	3897	4246	5017	3927	17087
2014	4644	4467	5339	4017	18467
2015	4183	4337	5401	3568	17489
2016	3965	4453	5782	4500	18700
2017	5800	5200	6000	4600	21600

Cal-endar	EARNINGS PER SHARE <sup>A</sup>				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2013	.47	.66	1.08	.49	2.70
2014	.66	.68	1.08	.36	2.77
2015	.56	.71	1.16	.42	2.84
2016	.57	.71	1.05	.42	2.75
2017	.65	.70	1.10	.50	2.95

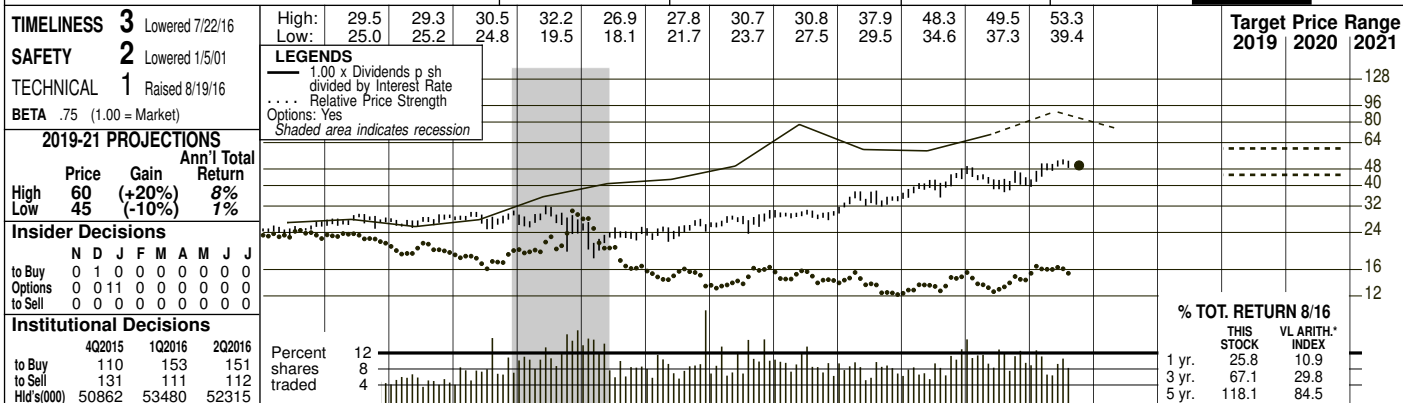
Cal-endar	QUARTERLY DIVIDENDS PAID <sup>B</sup> = †				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2012	.4725	.49	.49	.49	1.94
2013	.49	.5075	.5075	.5075	2.01
2014	.5075	.525	.525	.525	2.08
2015	.525	.5425	.5425	.5425	2.15
2016	.5425	.56			

(A) Dil. EPS. Excl. nonrec. gain (losses): '03, 6c; '09, (25c); '13, (83c); '14, (59c); '15, (25c); '16, (6c). '14 & '15 EPS don't add due to rounding. Next earnings report due late Oct. (B) Div's paid in early Mar., June, Sept., and Dec. ■ Div'd reinvest. plan avail. † Shareholder invest. plan avail. (C) Incl. def'd chgs. In '15: \$8.24/sh. (D) In mill. (E) Rate base: AL, MS, fair value; FL, GA, orig. cost. All'd return on com. eq. (blended): 12.5%; earn. on avg. com. eq., '15: 12.7%. Regul. Climate: GA, AL Above Avg.; MS, FL Avg. (F) Winter peak in '14 & '15.



# VECTREN CORP. NYSE-VVC

RECENT PRICE **49.79** P/E RATIO **20.0** (Trailing: 22.2; Median: 16.0) RELATIVE P/E RATIO **1.06** DIV'D YLD **3.3%** VALUE LINE



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	© VALUE LINE PUB. LLC	19-21
Revenues per sh	26.83	29.88	30.67	25.76	26.06	28.39	27.16	30.23	31.62	29.40	<b>28.50</b>	<b>30.95</b>		<b>38.95</b>
"Cash Flow" per sh	3.69	4.29	3.97	4.40	4.44	4.71	5.03	5.03	5.33	5.48	<b>5.55</b>	<b>6.15</b>		<b>8.00</b>
Earnings per sh <sup>A</sup>	1.44	1.83	1.63	1.79	1.65	1.73	1.94	1.66	2.02	2.39	<b>2.45</b>	<b>2.65</b>		<b>3.35</b>
Div'd Decl'd per sh <sup>B=†</sup>	1.23	1.27	1.31	1.35	1.37	1.39	1.41	1.43	1.46	1.54	<b>1.62</b>	<b>1.70</b>		<b>1.95</b>
Cap'l Spending per sh	3.70	4.38	4.83	5.33	3.39	3.92	4.45	4.77	5.43	5.76	<b>6.00</b>	<b>6.45</b>		<b>7.55</b>
Book Value per sh <sup>C</sup>	15.43	16.16	16.68	17.23	17.61	17.89	18.57	18.86	19.45	20.34	<b>21.55</b>	<b>22.90</b>		<b>26.15</b>
Common Shs Outst'g <sup>D</sup>	76.10	76.36	81.03	81.10	81.70	81.90	82.20	82.40	82.60	82.80	<b>83.50</b>	<b>84.00</b>		<b>86.00</b>
Avg Ann'l P/E Ratio	18.9	15.3	16.8	12.9	15.0	15.8	15.0	20.7	20.0	17.9	<b>15.0</b>	<b>15.0</b>		<b>15.0</b>
Relative P/E Ratio	1.02	.81	1.01	.86	.95	.99	.95	1.16	1.05	.91	<b>.95</b>	<b>.95</b>		<b>.95</b>
Avg Ann'l Div'd Yield	4.5%	4.5%	4.8%	5.9%	5.5%	5.1%	4.8%	4.2%	3.6%	3.6%	<b>3.6%</b>	<b>3.6%</b>		<b>3.9%</b>

**CAPITAL STRUCTURE as of 6/30/16**  
 Total Debt \$1758.7 mill. Due in 5 Yrs \$350.0 mill.  
 LT Debt \$1713.5 mill. LT Interest \$84.0 mill.  
 (LT interest earned: 4.4x)

**Pension Assets-12/15** \$296.9 mill. **Oblig.** \$348.3 mill.  
**Pfd Stock** None

**Common Stock** 82,835,860 shs. as of 7/29/16  
**MARKET CAP:** \$4.1 billion (Mid Cap)

**ELECTRIC OPERATING STATISTICS**

	2013	2014	2015
% Change Retail Sales (KWH)	+3	+2.0	-2.4
Avg. Indust. Use (MWH)	NA	NA	NA
Avg. Indust. Revs. per KWH (c)	NA	NA	NA
Capacity at Peak (Mw)	1384	1407	1357
Peak Load, Summer (Mw)	1102	1095	1088
Annual Load Factor (%)	NA	NA	NA
% Change Customers (yr-end)	+6	+6	+7

**BUSINESS:** Vectren is a holding company formed through the merger of Indiana Energy and SIGCORP. Supplies electricity and gas to an area nearly two-thirds of the state of Indiana. Owns gas distribution assets in Ohio. Has a customer base exceeding 1.1 million. 2015 Electricity revenues: residential, 36%; commercial, 27%; industrial, 34%; other, 3%. 2015 Gas revenues: residential, 67%; commercial, 23%; other, 10%. Nonutility operations include Infrastructure Services and Energy Services. Est'd plant age: electric, 9 years. '15 depreciation rate: 4.2%. Has about 5,600 employees. Chairman, President, & CEO: Carl Chapman. Incorporated: Indiana. Address: One Vectren Square, Evansville, Indiana 47708. Telephone: 812-491-4000. Internet: www.vectren.com.

**ANNUAL RATES of change (per sh)**

	Past 10 Yrs.	Past 5 Yrs.	Est'd '13-'15 to '19-21
Revenues	2.5%	2.0%	4.0%
"Cash Flow"	4.5%	4.5%	7.0%
Earnings	2.5%	3.5%	9.0%
Dividends	2.5%	2.0%	5.0%
Book Value	3.0%	2.5%	5.0%

**QUARTERLY REVENUES (\$ mill.)**

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2013	700.6	531.0	579.6	680.0	2491.2
2014	796.8	542.5	595.6	676.8	2611.7
2015	706.2	551.0	573.5	604.0	2434.7
2016	584.8	533.7	<b>610</b>	<b>651.5</b>	<b>2380</b>
2017	<b>650</b>	<b>600</b>	<b>650</b>	<b>700</b>	<b>2600</b>

**EARNINGS PER SHARE <sup>A</sup>**

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2013	.61	d.07	.52	.60	1.66
2014	.62	.14	.57	.69	2.02
2015	.69	.43	.48	.79	2.39
2016	.58	.39	<b>.63</b>	<b>.85</b>	<b>2.45</b>
2017	<b>.62</b>	<b>.45</b>	<b>.68</b>	<b>.90</b>	<b>2.65</b>

**QUARTERLY DIVIDENDS PAID <sup>B=†</sup>**

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2012	.350	.350	.350	.355	1.41
2013	.355	.355	.355	.360	1.43
2014	.360	.360	.360	.380	1.46
2015	.380	.380	.380	.400	1.54
2016	.400	.400	.400		

**Shares of Vectren have pulled back in price since reaching an all-time high early in the summer.** The company reported unimpressive overall results for the second quarter. Revenues and share earnings both declined, on a year-over-year basis. This was due to weakness on the nonutility side. The Infrastructure Services transmission operation has experienced greater competition in its primary area of pipeline maintenance work. This has resulted in lower margins and fewer jobs being won. In the plus column, the Infrastructure Services distribution business and the Energy Services line reported solid performances. Moreover, strong results from the utility segment also provided support, thanks to continued investment in the gas infrastructure program in Indiana and Ohio and efforts to control costs.

**We envision more-favorable earnings comparisons for the back half of the year, and further improvement from 2017 onward.** Vectren's utility businesses remain well positioned in their Indiana and Ohio territories, and we expect good performance will continue here going forward, especially at the gas utility operation. The Energy Services line and the Infrastructure Services distribution business should also perform well. That said, the Infrastructure Services transmission line operations will probably continue to experience challenges related to increased competition in the near term. Even so, the long-term outlook is somewhat brighter here, as upcoming pipeline projects should serve to reduce competitive pressures. The company has affirmed its consolidated earnings guidance of \$2.45 to \$2.55 per share for full-year 2016. Our estimate lies at the low end of this range.

**We expect solid growth in revenues and earnings here over the pull to 2019-2021.** Moreover, Vectren earns good marks for Safety, Financial Strength, and Earnings Predictability. Volatility is below average, too (Beta: .75). However, the stock's price-to-earnings multiple is somewhat greater than the historical average, and long-term total return potential is not compelling at this juncture. Patient investors may want to wait for a more attractive entry point.

*Michael Napoli, CFA* September 16, 2016

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(A) Diluted EPS. Excl. nonrecurr. gain (loss): '09, 15c. Next egs report due early November. (B) Div'ds historically paid in early March, June, September, and December. (C) Div'd rein-vest. plan avail. (D) Shareholder invest. plan avail. (E) Incl. intang. In '15, \$6.66/sh. (F) In millions. (G) Electric rate base determination: fair value. Rates allowed on elect. common equity range from 10.15% to 10.4%. Regulatory Climate: Above Average.

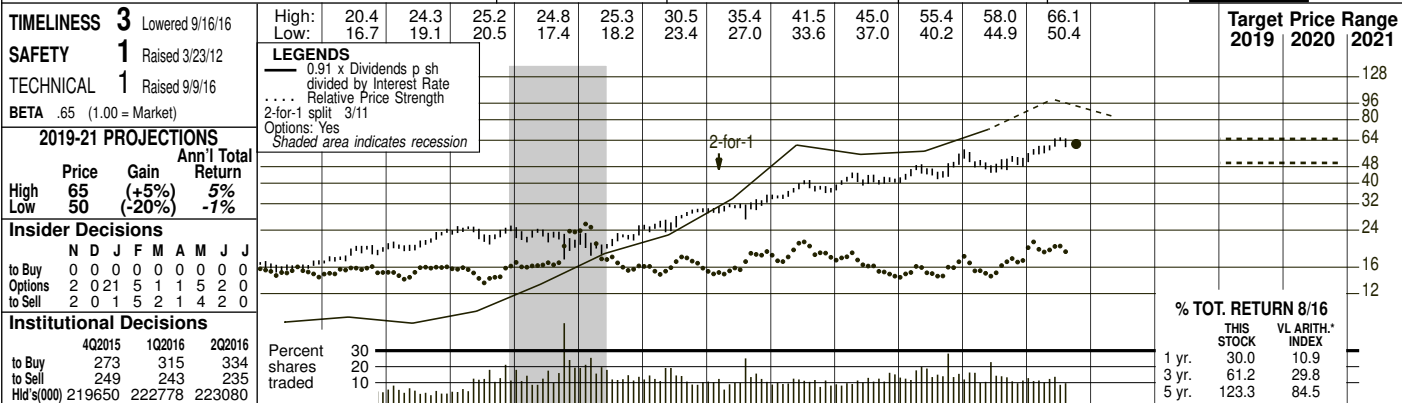
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**Company's Financial Strength** A  
**Stock's Price Stability** 95  
**Price Growth Persistence** 70  
**Earnings Predictability** 80

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# WEC ENERGY GROUP NYSE-WEC

RECENT PRICE **61.46** P/E RATIO **20.4** (Trailing: 21.9; Median: 16.0) RELATIVE P/E RATIO **1.08** DIV'D YLD **3.4%** VALUE LINE



2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	© VALUE LINE PUB. LLC	19-21
14.14	17.02	16.10	17.12	14.66	16.31	17.08	18.12	18.95	17.65	17.98	19.46	18.54	20.00	22.16	18.77	<b>23.30</b>	<b>24.25</b>	Revenues per sh	<b>27.00</b>
2.24	2.72	2.84	2.86	2.58	2.89	2.90	2.98	3.11	3.30	3.68	4.01	4.33	4.47	3.87	<b>5.70</b>	<b>5.45</b>	"Cash Flow" per sh	<b>6.50</b>	
.54	.92	1.16	1.13	.93	1.28	1.32	1.42	1.52	1.60	1.92	2.18	2.35	2.51	2.59	2.34	<b>2.95</b>	<b>3.10</b>	Earnings per sh <sup>A</sup>	<b>3.50</b>
.69	4.01	4.0	4.0	4.2	4.4	4.6	.50	.54	.68	.80	1.04	1.20	1.45	1.56	1.74	<b>1.98</b>	<b>2.08</b>	Div'd Decl'd per sh <sup>B</sup>	<b>2.40</b>
2.64	3.01	2.54	2.95	2.85	3.40	4.17	5.28	4.86	3.50	3.41	3.60	3.09	3.04	3.26	4.01	<b>4.90</b>	<b>6.05</b>	Cap'l Spending per sh	<b>5.00</b>
8.50	8.91	9.22	9.96	10.65	11.46	12.35	13.25	14.27	15.26	16.26	17.20	18.05	18.73	19.60	27.42	<b>28.20</b>	<b>29.25</b>	Book Value per sh <sup>C</sup>	<b>32.75</b>
237.29	230.84	232.06	236.85	233.97	233.96	233.94	233.89	233.84	233.82	233.77	230.49	229.04	225.96	225.52	315.68	<b>315.65</b>	<b>315.65</b>	Common Shs Outst'g <sup>D</sup>	<b>315.65</b>
18.7	12.1	10.5	12.4	17.5	14.5	16.0	16.5	14.8	13.3	14.0	14.2	15.8	16.5	17.7	21.3	<b>21.3</b>	<b>21.3</b>	Avg Ann'l P/E Ratio	<b>16.5</b>
1.22	.62	.57	.71	.92	.77	.86	.88	.89	.89	.89	.89	1.01	.93	.93	1.07	<b>1.07</b>	<b>1.07</b>	Relative P/E Ratio	<b>1.05</b>
6.8%	3.6%	3.3%	2.8%	2.6%	2.4%	2.2%	2.1%	2.4%	3.2%	3.0%	3.3%	3.2%	3.5%	3.4%	3.5%	<b>3.5%</b>	<b>3.5%</b>	Avg Ann'l Div'd Yield	<b>4.2%</b>

CAPITAL STRUCTURE as of 6/30/16		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Revenues (\$mill)		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
Total Debt	\$9925.7 mill. Due in 5 Yrs	\$3158.7 mill.																										
LT Debt	\$8902.1 mill.	LT Interest	\$454.0 mill.																									
Incl.	\$59.9 mill. capitalized leases.																											
(LT interest earned: 4.6x)																												
Leases, Uncapitalized	Annual rentals \$9.8 mill.																											
Pension Assets-12/15	\$2755.1 mill.																											
Oblig	\$3083.0 mill.																											
Pfd Stock	\$30.4 mill.	Pfd Div'd	\$1.2 mill.																									
260,000 shs.	3.60%, \$100 par, callable. \$101;																											
44,498 shs.	6%, \$100 par.																											
Common Stock	315,619,968 shs.																											
MARKET CAP:	\$19 billion (Large Cap)																											

ELECTRIC OPERATING STATISTICS				2013		2014		2015	
% Change Retail Sales (KWH)		-4.5	-5.9	+29.1					
Avg. Indust. Use (MWH)		NA	NA	NA					
Avg. Lg. C&I Revs. per KWH (¢)		8.21	8.62	7.71					
Capacity at Peak (Mw)		NA	NA	NA					
Peak Load, Summer (Mw)		NA	NA	NA					
Annual Load Factor (%)		NA	NA	NA					
% Change Customers (yr-end)		+2	+5	+40.2					

**WEC Energy Group's earnings are likely to rise considerably this year from a depressed level in 2015.** Last year, costs associated with the takeover of Integrys Energy Group reduced the bottom line by \$0.39 a share, so the year-to-year profit comparison is easy. WEC Energy's utilities are also benefiting from rate relief, including a current return (with a 30-day lag) on its accelerated gas main replacement program for Peoples Gas in Chicago. The company expects an annual investment of \$250 million-\$280 million on this program. Because second-quarter earnings were above our expectation, we have raised our 2016 profit estimate by a nickel a share, to \$2.95 (slightly above management's guidance of \$2.88-\$2.94). We are sticking with our 2017 forecast of \$3.10 a share, which would result in an earnings increase of 5%. WEC Energy's goal for yearly profit growth is 5%-7%.

Cal-endar	QUARTERLY REVENUES (\$ mill.)				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2013	1275.2	1012.3	1053.2	1178.3	4519.0
2014	1695.0	1043.7	1033.3	1225.1	4997.1
2015	1387.9	991.2	1698.7	1848.3	5926.1
2016	2195	1602	1650	1903	7350
2017	2300	1650	1700	2000	7650

Cal-endar	EARNINGS PER SHARE <sup>A</sup>				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2013	.76	.52	.60	.63	2.51
2014	.91	.58	.56	.54	2.59
2015	.86	.35	.58	.57	2.34
2016	1.09	.57	.59	.70	2.95
2017	1.15	.60	.60	.75	3.10

Cal-endar	QUARTERLY DIVIDENDS PAID <sup>B</sup>				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2012	.30	.30	.30	.30	1.20
2013	.34	.34	.3825	.3825	1.45
2014	.39	.39	.39	.39	1.56
2015	.4225	.4225	.44	.4575	1.74
2016	.495	.495	.495		

**WEC Energy's subsidiary in Michigan plans to build a gas-fired power plant.** Some of the plant's output would be sold to a mining customer in the Upper Peninsula under a 20-year contract. The cost of the 170-megawatt project is estimated at \$255 million. The utility would recover half of this from the customer and the other half from utility customers through rate cases. The company requires various regulatory approvals before it can begin construction. Commercial operation of the units is expected in 2019.

**Finances are in excellent shape.** The fixed-charge coverage dipped in 2015 due to the aforementioned merger-related expenses, but was still above average for a utility. The common-equity ratio is healthy. WEC Energy's return on equity isn't likely to revert to the levels it reached before the Integrys takeover, but should remain respectable. All told, the company has a Financial Strength rating of A+, our second highest.

**WEC Energy stock is ranked 1 (Highest) for Safety.** The dividend yield is about average for a utility. This might still be appealing to conservative, income-oriented accounts in view of the stock's high quality. However, with the recent price well within our 2019-2021 Target Price Range, total return potential is unspectacular.

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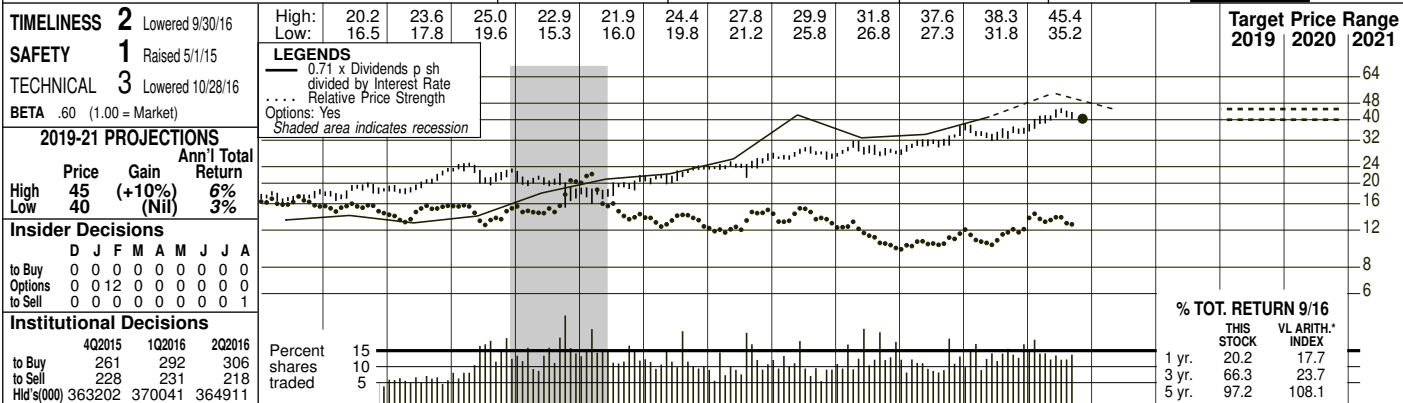
Company's Financial Strength	A+
Stock's Price Stability	100
Price Growth Persistence	85
Earnings Predictability	85

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# XCEL ENERGY NYSE-XEL

RECENT PRICE **40.54** P/E RATIO **17.9** (Trailing: 19.2; Median: 15.0) RELATIVE P/E RATIO **0.97** DIV'D YLD **3.5%** VALUE LINE



**TIMELINESS** 2 Lowered 9/30/16  
**SAFETY** 1 Raised 5/1/15  
**TECHNICAL** 3 Lowered 10/28/16  
**BETA** .60 (1.00 = Market)

**2019-21 PROJECTIONS**

	Price	Gain	Ann'l Total Return
High	45	(+10%)	6%
Low	40	(Nil)	3%

**Insider Decisions**

	D	J	F	M	A	M	J	J	A
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	12	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	1

**Institutional Decisions**

	4Q2015	1Q2016	2Q2016
to Buy	261	292	306
to Sell	228	231	218
Hlds(000)	363202	370041	364911

High	Low	20.2	23.6	25.0	22.9	21.9	24.4	27.8	29.9	31.8	37.6	38.3	45.4	Target Price	Range												
Low	High	16.5	17.8	19.6	15.3	16.0	19.8	21.2	25.8	26.8	27.3	31.8	35.2	2019	2020	2021											
<p><b>LEGENDS</b>                      0.71 x Dividends p sh divided by Interest Rate                      ... Relative Price Strength                      Options: Yes                      Shaded area indicates recession</p>																											
<p><b>% TOT. RETURN 9/16</b></p> <table border="1"> <thead> <tr> <th></th> <th>THIS STOCK</th> <th>VL ARITH. INDEX</th> </tr> </thead> <tbody> <tr> <td>1 yr.</td> <td>20.2</td> <td>17.7</td> </tr> <tr> <td>3 yr.</td> <td>66.3</td> <td>23.7</td> </tr> <tr> <td>5 yr.</td> <td>97.2</td> <td>108.1</td> </tr> </tbody> </table>																	THIS STOCK	VL ARITH. INDEX	1 yr.	20.2	17.7	3 yr.	66.3	23.7	5 yr.	97.2	108.1
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1 yr.	20.2	17.7																									
3 yr.	66.3	23.7																									
5 yr.	97.2	108.1																									

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	© VALUE LINE PUB. LLC	19-21
34.11	43.56	23.89	19.90	20.84	23.86	24.16	23.40	24.69	21.08	21.38	21.90	20.76	21.92	23.11	21.72	21.25	21.65	Revenues per sh	23.25
4.12	5.09	3.14	3.35	3.27	3.28	3.61	3.45	3.50	3.48	3.51	3.79	4.00	4.10	4.28	4.56	5.05	5.30	"Cash Flow" per sh	6.25
1.60	2.27	.42	1.23	1.27	1.20	1.35	1.35	1.46	1.49	1.56	1.72	1.85	1.91	2.03	2.10	2.20	2.30	Earnings per sh <sup>A</sup>	2.75
1.48	1.50	1.13	.75	.81	.85	.88	.91	.94	.97	1.00	1.03	1.07	1.11	1.20	1.28	1.36	1.44	Div'd Decl'd per sh <sup>B</sup> = †	1.70
3.63	7.40	6.04	2.49	3.19	3.25	4.00	4.89	4.66	3.91	4.60	4.53	5.27	6.82	6.33	7.26	6.00	5.85	Cap'l Spending per sh	5.75
16.37	17.95	11.70	12.95	12.99	13.37	14.28	14.70	15.35	15.92	16.76	17.44	18.19	19.21	20.20	20.89	21.70	22.60	Book Value per sh <sup>C</sup>	25.50
339.79	345.02	398.71	398.96	400.46	403.39	407.30	428.78	453.79	457.51	482.33	486.49	487.96	497.97	505.73	507.54	508.00	508.00	Common Shs Outst'g <sup>D</sup>	508.00
14.3	12.4	NMF	11.6	13.6	15.4	14.8	16.7	13.7	12.7	14.1	14.2	14.8	15.0	15.4	16.5	16.5	16.5	Avg Ann'l P/E Ratio	15.5
.93	.64	NMF	.66	.72	.82	.80	.89	.82	.85	.90	.89	.94	.84	.81	.84	.84	.84	Relative P/E Ratio	.95
6.4%	5.3%	6.6%	5.2%	4.7%	4.6%	4.4%	4.0%	4.7%	5.1%	4.5%	4.2%	3.9%	3.9%	3.8%	3.7%	3.7%	3.7%	Avg Ann'l Div'd Yield	4.0%

**CAPITAL STRUCTURE as of 6/30/16**  
 Total Debt \$14262 mill. Due in 5 Yrs \$5011.0 mill.  
 LT Debt \$13105 mill. LT Interest \$602.8 mill.  
 Incl. \$164.0 mill. capitalized leases.  
 (LT interest earned: 3.8x)

**Leases, Uncapitalized** Annual rentals \$241.6 mill.  
**Pension Assets-12/15** \$2883.8 mill.  
**Oblig.** \$3567.9 mill.

**Pfd Stock** None

**Common Stock** 507,952,795 shs. as of 8/1/16  
**MARKET CAP: \$21 billion (Large Cap)**

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Revenues (\$mill)	11750	
9840.3	10034	11203	9644.3	10311	10655	10128	10915	11686	11024	10800	11000	11000	11000	11000	11000	11000	11000	11000	11000	11750
568.7	575.9	645.7	685.5	727.0	841.4	905.2	948.2	1021.3	1063.6	1115	1175	1175	1175	1175	1175	1175	1175	1175	1175	1400
24.2%	33.8%	34.4%	35.1%	37.5%	35.8%	33.2%	33.8%	33.9%	35.8%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
9.8%	12.5%	15.9%	16.8%	11.7%	9.4%	10.8%	13.4%	12.5%	7.7%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	5.0%
52.1%	49.7%	52.2%	51.6%	53.1%	51.1%	53.3%	53.3%	53.0%	54.1%	55.0%	54.0%	54.0%	54.0%	54.0%	54.0%	54.0%	54.0%	54.0%	54.0%	52.5%
47.0%	49.4%	47.1%	47.7%	46.3%	48.9%	46.7%	46.7%	47.0%	45.9%	45.0%	46.0%	46.0%	46.0%	46.0%	46.0%	46.0%	46.0%	46.0%	46.0%	47.5%
12371	12748	14800	15277	17452	17331	19018	20477	21714	23092	24475	24875	24875	24875	24875	24875	24875	24875	24875	24875	27500
15549	16676	17689	18508	20663	22353	23809	26122	28757	31206	32825	34275	34275	34275	34275	34275	34275	34275	34275	34275	38400
6.2%	6.3%	6.0%	6.2%	5.7%	6.5%	6.1%	6.0%	6.0%	5.8%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.5%
9.6%	9.0%	9.1%	9.3%	8.9%	9.9%	10.2%	9.9%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	11.0%
9.7%	9.1%	9.2%	9.4%	8.9%	9.9%	10.2%	9.9%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	11.0%
3.6%	3.1%	3.8%	3.7%	3.6%	4.3%	4.7%	4.5%	4.5%	4.3%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
63%	66%	59%	61%	59%	56%	54%	54%	55%	57%	62%	62%	62%	62%	62%	62%	62%	62%	62%	62%	62%

**ELECTRIC OPERATING STATISTICS**

	2013	2014	2015
% Change Retail Sales (KWH)	+3	+2	-6
Large C & I Use (MWH)	23875	24475	23521
Large C & I Revs. per KWH (c)	6.23	6.47	6.10
Capacity at Peak (Mw)	NA	NA	NA
Peak Load, Summer (Mw)	21258	21429	19583
Annual Load Factor (%)	NA	NA	NA
% Change Customers (yr-end)	+8	+9	+9

Fixed Charge Cov. (%) 321 344 358

**ANNUAL RATES** Past 10 Yrs. Past 5 Yrs. Est'd '13-'15 of change (per sh)

	Past 10 Yrs.	Past 5 Yrs.	Est'd '13-'15
Revenues	5%	-	5%
"Cash Flow"	2.5%	4.5%	6.5%
Earnings	5.0%	6.0%	5.5%
Dividends	4.0%	4.5%	6.0%
Book Value	4.5%	4.5%	4.0%

**BUSINESS:** Xcel Energy Inc. is the parent of Northern States Power, which supplies electricity to Minnesota, Wisconsin, North Dakota, South Dakota & Michigan & gas to Minnesota, Wisconsin, North Dakota & Michigan; Public Service of Colorado, which supplies electricity & gas to Colorado; & Southwestern Public Service, which supplies electricity to Texas & New Mexico. Customers: 3.5 mill. electric, 1.9 mill. gas. Elec. rev. breakdown: residential, 31%; sm. comm'l & ind'l, 36%; lg. comm'l & ind'l, 18%; other, 15%. Generating sources not available. Fuel costs: 43% of revs. '15 reported depr. rate: 2.8%. Has 11,700 employees. Chairman, Pres. & CEO: Ben Fowke, Inc.: MN. Address: 414 Nicollet Mall, Minneapolis, MN 55401. Tel.: 612-330-5500. Internet: www.xcelenergy.com.

**Some other rate cases are pending or concluded.** In Texas, Southwestern Public Service is seeking an electric increase of \$61.5 million, based on a 10.25% return on a 54% common-equity ratio. An order is expected in the first quarter, with the increase retroactive to July 20th. In New Mexico, the utility settled for an electric boost of \$23.5 million, which took effect in August. In Wisconsin, NSP is asking for electric and gas hikes of \$26.9 million and \$4.8 million, respectively, based on a 10% return on a 52.5% common-equity ratio. A ruling is expected in late 2016, with new rates effective at the start of 2017.

**Xcel Energy's utility subsidiary in Minnesota has reached a settlement of its multiyear electric rate case.** Northern States Power had requested tariff hikes of \$194.6 million in 2016, \$52.1 million in 2017, and \$50.4 million in 2018, based on a return of 10% on a common-equity ratio of 52.5%. (The utility is now collecting an interim rate increase of \$163.7 million.) The settlement calls for raises of \$75.0 million in 2016 (plus \$37.4 million to make up for a shortfall in kilowatt-hour sales), \$59.9 million in 2017, nothing in 2018, and \$50.1 million in 2019, based on a return of 9.2% on a common-equity ratio of 52.5%. The agreement is subject to approval by the Minnesota commission. Not every intervenor signed on, so the final decision isn't expected until June.

**The settlement, if approved, will help Xcel attain its goal of narrowing the gap between its allowed and earned ROEs.** This gap is now roughly one percentage point, and the company wants to reduce this to a half percentage point by 2018. To achieve this, the company will need rate relief in other states.

Cal-endar	QUARTERLY REVENUES (\$ mill.)				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2013	2783	2579	2822	2731	10915
2014	3203	2685	2870	2928	11686
2015	2962	2515	2902	2645	11024
2016	2772	2500	2928	2600	10800
2017	2800	2550	3000	2650	11000

Cal-endar	EARNINGS PER SHARE <sup>A</sup>				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2013	.48	.40	.73	.30	1.91
2014	.52	.39	.73	.39	2.03
2015	.46	.39	.84	.41	2.10
2016	.47	.39	.89	.45	2.20
2017	.54	.40	.90	.46	2.30

Cal-endar	QUARTERLY DIVIDENDS PAID <sup>B</sup> = †				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2012	.26	.26	.27	.27	1.06
2013	.27	.27	.28	.28	1.10
2014	.28	.30	.30	.30	1.18
2015	.30	.32	.32	.32	1.26
2016	.32	.34	.34	.34	

**Rate relief is the main driver of the profit growth we estimate in 2016 and 2017.** Our 2016 estimate is within Xcel's guidance of \$2.12-\$2.27 a share. We forecast an increase next year in line with the company's goal of 4%-6% annual growth. **This timely and high-quality stock has a dividend yield that is about equal to the utility average.** Like most utility issues, the recent quotation is within our 2019-2021 Target Price Range. Accordingly, total return potential is unexciting.

**Paul E. Debbas, CFA** October 28, 2016

(A) Diluted EPS. Excl. nonrecurring gain (losses): '02, (\$6.27); '10, 5c; '15, (16c); gains (losses) on discontinued ops.: '03, 27c; '04, (30c); '05, 3c; '06, 1c; '09, (1c); '10, 1c. Next earnings report due early Nov. (B) Div'ds historically paid mid-Jan., Apr., July, and Oct. (C) Div'd reinvestment plan available. † Shareholder investment plan available. (D) In mill. (E) Rate base: Varies. Rate allowed on com. eq. (blended): 9.8%; earned on avg. com. eq., '15: 9.5%. Regulatory Climate: Average.	Company's Financial Strength	A+
	Stock's Price Stability	100
	Price Growth Persistence	55
	Earnings Predictability	100

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Up Last 7 Days	N/A	N/A	N/A	N/A
Up Last 30 Days	N/A	N/A	N/A	N/A
Down Last 30 Days	N/A	N/A	N/A	N/A
Down Last 90 Days	N/A	N/A	N/A	N/A

Growth Estimates	AEE	Industry	Sector	S&P 500
Current Qtr.	-3.50%	14.49		
Next Qtr.	50.00%	22.03		
Current Year	-0.80%	13.84		
Next Year	8.30%	0.02		
Next 5 Years (per annum)	5.20%	0.06		
Past 5 Years (per annum)	-0.25%	N/A		

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90 Days Ago 0.92 0.21 1.9 2.01

EPS Revisions	Current Qtr.	Next Qtr.	Current Year	Next Year
Up Last 7 Days	N/A	N/A	N/A	N/A
Up Last 30 Days	N/A	N/A	N/A	N/A
Down Last 30 Days	N/A	N/A	N/A	N/A
Down Last 90 Days	N/A	N/A	N/A	N/A

Growth Estimates	LNT	Industry	Sector	S&P 500
Current Qtr.	16.20%	14.49		
Next Qtr.	N/A	22.03		
Current Year	9.20%	13.84		
Next Year	5.80%	0.02		
Next 5 Years (per annum)	6.60%	0.06		
Past 5 Years (per annum)	3.07%	N/A		

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	Current Qtr.	Next Qtr.	Current Year	Next Year
<b>90 Days Ago</b>	0.47	0.66	2.13	2.32
<b>EPS Revisions</b>				
<b>Up Last 7 Days</b>	N/A	N/A	1	N/A
<b>Up Last 30 Days</b>	N/A	N/A	1	N/A
<b>Down Last 30 Days</b>	N/A	N/A	N/A	2
<b>Down Last 90 Days</b>	N/A	N/A	N/A	N/A

<b>Growth Estimates</b>	AGR	Industry	Sector	S&P 500
Current Qtr.	N/A	14.49		
Next Qtr.	71.40%	22.03		
Current Year	101.90%	13.84		
Next Year	9.40%	0.02		
Next 5 Years (per annum)	9.00%	0.06		
Past 5 Years (per annum)	N/A	N/A		

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90 Days Ago 0.23 0.59 2.03 2.15

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EPS Revisions	Current Qtr.	Next Qtr.	Current Year	Next Year
Up Last 7 Days	N/A	N/A	N/A	N/A
Up Last 30 Days	N/A	N/A	N/A	N/A
Down Last 30 Days	N/A	N/A	N/A	N/A
Down Last 90 Days	N/A	N/A	N/A	N/A

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Growth Estimates	AVA	Industry	Sector	S&P 500
Current Qtr.	-9.50%	14.49		
Next Qtr.	-1.60%	22.03		
Current Year	5.60%	13.84		
Next Year	3.80%	0.02		
Next 5 Years (per annum)	5.00%	0.06		
Past 5 Years (per annum)	12.12%	N/A		

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Current Qtr.

Next Qtr.

Current Year

Next Year

Up Last 7 Days

N/A

N/A

1

N/A

Up Last 30 Days

N/A

N/A

1

N/A

Down Last 30 Days

N/A

N/A

N/A

N/A

Down Last 90 Days

N/A

N/A

N/A

N/A

Growth Estimates

BKH

Industry

Sector

S&P 500

Current Qtr.

-34.40%

14.49

Next Qtr.

54.90%

22.03

Current Year

1.00%

13.84

Next Year

17.90%

0.02

Next 5 Years (per annum)

6.70%

0.06

Past 5 Years (per annum)

11.95%

N/A

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90 Days Ago 0.35 0.27 1.15 1.21

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Up Last 7 Days	N/A	N/A	N/A	N/A
Up Last 30 Days	N/A	N/A	N/A	1
Down Last 30 Days	N/A	N/A	N/A	N/A
Down Last 90 Days	N/A	N/A	N/A	N/A

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Growth Estimates	CNP	Industry	Sector	S&P 500
Current Qtr.	5.90%	14.49		
Next Qtr.	N/A	22.03		
Current Year	4.50%	13.84		
Next Year	6.10%	0.02		
Next 5 Years (per annum)	5.26%	0.06		
Past 5 Years (per annum)	-4.09%	N/A		

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90 Days Ago 0.58 0.55 2.02 2.18

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EPS Revisions	Current Qtr.	Next Qtr.	Current Year	Next Year
Up Last 7 Days	N/A	N/A	N/A	N/A
Up Last 30 Days	N/A	N/A	1	N/A
Down Last 30 Days	N/A	N/A	N/A	N/A
Down Last 90 Days	N/A	N/A	N/A	N/A

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Growth Estimates	CMS	Industry	Sector	S&P 500
Current Qtr.	3.80%	14.49		
Next Qtr.	13.20%	22.03		
Current Year	6.90%	13.84		
Next Year	7.90%	0.02		
Next 5 Years (per annum)	7.27%	0.06		
Past 5 Years (per annum)	8.22%	N/A		



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90 Days Ago	0.7	0.29	1.47	1.56
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EPS Revisions	Current Qtr.	Next Qtr.	Current Year	Next Year
Up Last 7 Days	N/A	N/A	N/A	N/A
Up Last 30 Days	N/A	N/A	N/A	N/A
Down Last 30 Days	N/A	N/A	N/A	N/A
Down Last 90 Days	N/A	N/A	N/A	N/A

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Growth Estimates	EDE	Industry	Sector	S&P 500
Current Qtr.	N/A	-0.21		
Next Qtr.	N/A	-0.05		
Current Year	14.00%	-0.71		
Next Year	6.10%	0.46		
Next 5 Years (per annum)	5.00%	0.12		
Past 5 Years (per annum)	0.54%	N/A		

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90 Days Ago		1.36	1.17	4.95	5.26

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EPS Revisions	Current Qtr.	Next Qtr.	Current Year	Next Year
Up Last 7 Days	N/A	N/A	N/A	N/A
Up Last 30 Days	3	2	8	2
Down Last 30 Days	N/A	N/A	N/A	N/A
Down Last 90 Days	N/A	N/A	N/A	N/A

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Growth Estimates	DTE	Industry	Sector	S&P 500
Current Qtr.	1.40%	14.49		
Next Qtr.	21.80%	22.03		
Current Year	6.80%	13.84		
Next Year	2.50%	0.02		
Next 5 Years (per annum)	5.51%	0.06		
Past 5 Years (per annum)	6.98%	N/A		

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90 Days Ago	2.12	0.58	5.1	5.22
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EPS Revisions	Current Qtr.	Next Qtr.	Current Year	Next Year
Up Last 7 Days	N/A	N/A	1	1
Up Last 30 Days	1	1	3	1
Down Last 30 Days	1	1	N/A	1
Down Last 90 Days	N/A	N/A	N/A	N/A

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Growth Estimates	ETR	Industry	Sector	S&P 500
Current Qtr.	3.20%	14.49		
Next Qtr.	-65.80%	22.03		
Current Year	12.00%	13.84		
Next Year	-23.20%	0.02		
Next 5 Years (per annum)	-2.60%	0.06		
Past 5 Years (per annum)	1.92%	N/A		

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0.8
0.76
2.98
3.17

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EPS Revisions	Current Qtr.	Next Qtr.	Current Year	Next Year
Up Last 7 Days	N/A	1	1	N/A
Up Last 30 Days	N/A	1	1	N/A
Down Last 30 Days	1	N/A	N/A	2
Down Last 90 Days	N/A	N/A	N/A	N/A

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Growth Estimates	ES	Industry	Sector	S&P 500
Current Qtr.	6.70%	14.49		
Next Qtr.	25.00%	22.03		
Current Year	5.70%	13.84		
Next Year	6.40%	0.02		
Next 5 Years (per annum)	5.39%	0.06		
Past 5 Years (per annum)	6.35%	N/A		

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90 Days Ago	0.79	0.59	2.5	2.64
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EPS Revisions	Current Qtr.	Next Qtr.	Current Year	Next Year
Up Last 7 Days	N/A	N/A	N/A	N/A
Up Last 30 Days	1	2	3	2
Down Last 30 Days	1	1	1	1
Down Last 90 Days	N/A	N/A	N/A	N/A

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Growth Estimates	EXC	Industry	Sector	S&P 500
Current Qtr.	-12.00%	14.49		
Next Qtr.	31.60%	22.03		
Current Year	2.40%	13.84		
Next Year	2.70%	0.02		
Next 5 Years (per annum)	2.66%	0.06		
Past 5 Years (per annum)	-8.62%	N/A		



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90 Days Ago 0.63    1.01    3.29    3.43

EPS Revisions	Current Qtr.	Next Qtr.	Current Year	Next Year
Up Last 7 Days	N/A	N/A	N/A	N/A
Up Last 30 Days	1	N/A	N/A	N/A
Down Last 30 Days	N/A	N/A	N/A	N/A
Down Last 90 Days	N/A	N/A	N/A	N/A

Growth Estimates	NWE	Industry	Sector	S&P 500
Current Qtr.	23.50%	14.49		
Next Qtr.	-1.00%	22.03		
Current Year	3.80%	13.84		
Next Year	4.60%	0.02		
Next 5 Years (per annum)	5.00%	0.06		
Past 5 Years (per annum)	7.74%	N/A		

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90 Days Ago	1.11	0.81	3.72	3.68
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EPS Revisions	Current Qtr.	Next Qtr.	Current Year	Next Year
Up Last 7 Days	N/A	N/A	N/A	N/A
Up Last 30 Days	1	2	2	1
Down Last 30 Days	N/A	N/A	N/A	N/A
Down Last 90 Days	N/A	N/A	N/A	N/A

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Growth Estimates	PCG	Industry	Sector	S&P 500
Current Qtr.	33.30%	14.49		
Next Qtr.	114.00%	22.03		
Current Year	19.20%	13.84		
Next Year	-1.60%	0.02		
Next 5 Years (per annum)	5.66%	0.06		
Past 5 Years (per annum)	-4.89%	N/A		

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90 Days Ago

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EPS Revisions	Current Qtr.	Next Qtr.	Current Year	Next Year
Up Last 7 Days	N/A	N/A	N/A	N/A
Up Last 30 Days	N/A	1	N/A	1
Down Last 30 Days	1	1	1	1
Down Last 90 Days	N/A	N/A	N/A	N/A

Growth Estimates	PPL	Industry	Sector	S&P 500
Current Qtr.	9.80%	14.49		
Next Qtr.	18.60%	22.03		
Current Year	6.30%	13.84		
Next Year	-7.20%	0.02		
Next 5 Years (per annum)	2.47%	0.06		
Past 5 Years (per annum)	-2.44%	N/A		

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90 Days Ago 0.88 0.52 2.88 2.88

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EPS Revisions	Current Qtr.	Next Qtr.	Current Year	Next Year
Up Last 7 Days	N/A	1	1	2
Up Last 30 Days	1	4	2	3
Down Last 30 Days	N/A	N/A	N/A	N/A
Down Last 90 Days	N/A	N/A	N/A	N/A

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Growth Estimates	PEG	Industry	Sector	S&P 500
Current Qtr.	10.00%	14.49		
Next Qtr.	N/A	22.03		
Current Year	-1.40%	13.84		
Next Year	0.30%	0.02		
Next 5 Years (per annum)	1.47%	0.06		
Past 5 Years (per annum)	2.53%	N/A		

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EPS Revisions	Current Qtr.	Next Qtr.	Current Year	Next Year
Up Last 7 Days	N/A	N/A	N/A	N/A
Up Last 30 Days	N/A	N/A	N/A	N/A
Down Last 30 Days	N/A	N/A	N/A	N/A
Down Last 90 Days	N/A	N/A	N/A	N/A

Growth Estimates	SCG	Industry	Sector	S&P 500
Current Qtr.	2.90%	14.49		
Next Qtr.	31.90%	22.03		
Current Year	4.20%	13.84		
Next Year	5.50%	0.02		
Next 5 Years (per annum)	6.00%	0.06		
Past 5 Years (per annum)	6.93%	N/A		

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EPS Analyst Estimates	SRE	Current Qtr.	Industry	Current Year	S&P 500
7 Days Ago		0.93	1.57	4.77	5.12
30 Days Ago		0.92	1.57	4.79	5.13
60 Days Ago		0.93	1.49	4.81	5.19
90 Days Ago		0.97	1.43	4.83	5.32

EPS Revisions	Current Qtr.	Next Qtr.	Current Year	Next Year
Up Last 7 Days	N/A	N/A	N/A	N/A
Up Last 30 Days	N/A	N/A	1	2
Down Last 30 Days	N/A	N/A	N/A	N/A
Down Last 90 Days	N/A	N/A	N/A	N/A

Growth Estimates	SRE	Industry	Sector	S&P 500
Current Qtr.	-7.00%	14.49		
Next Qtr.	6.80%	22.03		
Current Year	-8.40%	13.84		
Next Year	7.30%	0.02		
Next 5 Years (per annum)	7.65%	0.06		
Past 5 Years (per annum)	3.30%	N/A		

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90 Days Ago	1.12	0.47	2.85	2.97
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EPS Revisions	Current Qtr.	Next Qtr.	Current Year	Next Year
Up Last 7 Days	N/A	N/A	1	2
Up Last 30 Days	N/A	1	1	2
Down Last 30 Days	N/A	N/A	1	N/A
Down Last 90 Days	N/A	N/A	N/A	N/A

Growth Estimates	SO	Industry	Sector	S&P 500
Current Qtr.	-4.30%	14.49		
Next Qtr.	2.30%	22.03		
Current Year	-1.00%	13.84		
Next Year	3.80%	0.02		
Next 5 Years (per annum)	3.16%	0.06		
Past 5 Years (per annum)	1.71%	N/A		

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[90 Days Ago](#)
0.81
0.82
2.47
2.67

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EPS Revisions	Current Qtr.	Next Qtr.	Current Year	Next Year
Up Last 7 Days	N/A	N/A	N/A	N/A
Up Last 30 Days	N/A	N/A	N/A	N/A
Down Last 30 Days	N/A	N/A	N/A	N/A
Down Last 90 Days	N/A	N/A	N/A	N/A

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Growth Estimates	VVC	Industry	Sector	S&P 500
Current Qtr.	33.30%	0.39		
Next Qtr.	6.30%	0.02		
Current Year	3.30%	-0.03		
Next Year	7.70%	0.07		
Next 5 Years (per annum)	5.00%	0.04		
Past 5 Years (per annum)	8.87%	N/A		

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90 Days Ago 0.59 0.7 2.93 3.1

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EPS Revisions	Current Qtr.	Next Qtr.	Current Year	Next Year
Up Last 7 Days	N/A	N/A	N/A	N/A
Up Last 30 Days	N/A	N/A	N/A	N/A
Down Last 30 Days	N/A	N/A	N/A	N/A
Down Last 90 Days	N/A	N/A	N/A	N/A

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Growth Estimates	WEC	Industry	Sector	S&P 500
Current Qtr.	-4.90%	14.49		
Next Qtr.	12.70%	22.03		
Current Year	7.30%	13.84		
Next Year	5.80%	0.02		
Next 5 Years (per annum)	6.72%	0.06		
Past 5 Years (per annum)	6.87%	N/A		

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90 Days Ago 0.86 0.46 2.2 2.32

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EPS Revisions	Current Qtr.	Next Qtr.	Current Year	Next Year
Up Last 7 Days	N/A	N/A	1	N/A
Up Last 30 Days	N/A	1	1	1
Down Last 30 Days	N/A	N/A	N/A	1
Down Last 90 Days	N/A	N/A	N/A	N/A

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Growth Estimates	XEL	Industry	Sector	S&P 500
Current Qtr.	3.60%	14.49		
Next Qtr.	14.60%	22.03		
Current Year	5.30%	13.84		
Next Year	5.00%	0.02		
Next 5 Years (per annum)	5.34%	0.06		
Past 5 Years (per annum)	3.19%	N/A		





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**QUOTES & NEWS**

Quote Overview

Real Time Quotes

News

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\* Style Scores

\* Detailed Estimates

Comparison to Industry

**MORE RESEARCH**

Full Company Report

Broker Digest Report

Earnings Announcements

Broker Reports

Insiders

Broker Recommendations

Earnings Transcripts

**CHARTS**

Comparative

Interactive Charts

\* Price and Consensus

Price, Consensus and  
EPS Surprise

Price & EPS Surprise

12 Month EPS

Broker Recommendations

Fundamental Charts

**FINANCIALS**

**Alliant Engy Cp: (LNT)**

(Delayed Data From NYSE)

**\$37.32 USD**

+0.03 (0.08%)

Updated Oct 20, 2016 04:02 PM ET

Volume: 1,039,175

Open: \$37.41

Prior Close: \$37.29

Zacks Rank [?]:

Style Scores [?]:

+ Add to portfolio

Trades from \$3

3-Hold

Value: **C** | Growth: **C** | Momentum: **B** | VGM: **C**

[View All Zacks Rank #1 Strong Buys](#)

**Quote Overview**

Enter Symbol

**Stock Activity**

Open 37.41

Day Low 37.22

Day High 37.63

52 Wk Low 28.07

52 Wk High 40.99

Avg. Volume 1,424,845

Market Cap 8.48 B

Dividend 1.17 ( 3.14%)

Beta 0.41

Industry

**Key Earnings Data**

Forward PE 19.76

PEG Ratio 3.26

Current Qtr Est 0.87

Current Yr Est 1.89

Most Accurate Est 0.87

Qtr Earnings ESP[?] 0.00%

Exp Earnings Date \*AMC11/3/16

Prior Year EPS 1.75

Exp EPS Growth (3-5yr) 6.07%

\*BMO = Before Market Open \*AMC = After Market Close

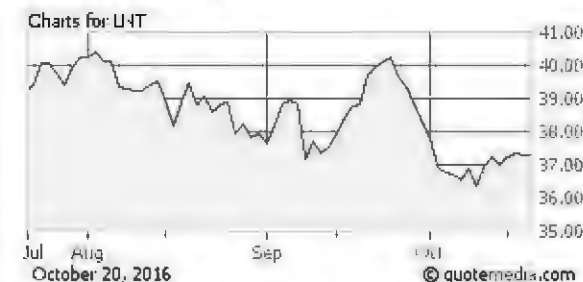
UTIL-ELEC PWR

**Research Reports For LNT**

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**Zacks News For LNT**

**Chart for LNT**



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**Other News For LNT**

**Alliant Energy Corporation Announces Third...**  
10/19/16-4:26PM EST PR Newswire

**My Third Quarter Portfolio Review - Focus On...**  
10/17/16-10:16AM EST Seeking Alpha

**Alliant Energy reaches agreement with customer...**  
10/12/16-4:26PM EST PR Newswire

**Large factories frustrated with Wisconsin's high...**  
10/11/16-11:36AM EST Associated Press, The

**Market Pullback Spurs Buying Frenzy - Recent...**  
10/11/16-10:30AM EST Seeking Alpha



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QUOTES & NEWS

Quote Overview

Real Time Quotes

News

ZACKS RESEARCH

\* Snapshot

\* Analyst Report

\* Style Scores

\* Qualified Estimates

Comparison to Industry

MORE RESEARCH

Full Company Report

Broker Digest Report

Earnings Announcements

Broker Reports

Insiders

Dividend Recommendations

Earnings Transcripts

CHARTS

Comparative

Interactive Charts

\* Price and Consensus

Price, Consensus and EPS Surprise

Price & EPS Surprise

12 Month EPS

Broker Recommendations

Fundamental Data

FINANCIALS

**Ameren Corp: (AEE)**

(Delayed Data From NYSE)

**\$48.62 USD**

**-0.08 (-0.16%)**

Updated Oct 20, 2016 04:00 PM ET

Volume: 757,993

Open: \$48.70

Prior Close: \$48.70

Zacks Rank <sup>[?]</sup>:

Style Scores <sup>[?]</sup>:

+ Add to portfolio

Trades from

2-Buy  2

Value: **B** | Growth: **D** | Momentum: **A** | VGM:

[View All Zacks Rank #1 Strong Buys](#)

**Quote Overview**

Enter Symbol

**Stock Activity**

Open 48.70

Day Low 48.50

Day High 48.99

52 Wk Low 41.33

52 Wk High 54.08

Avg. Volume 1,740,374

Market Cap 11.82 B

Dividend 1.70 ( 3.48%)

Beta 0.37

Industry

**Key Earnings Data**

Forward PE 19.35

PEG Ratio 3.19

Current Qtr Est 1.38

Current Yr Est 2.53

Most Accurate Est 1.42

Qtr Earnings ESP<sup>[?]</sup> 2.90%

Exp Earnings Date <sup>\*BMO</sup>11/4/16

Prior Year EPS 2.56

Exp EPS Growth (3-5yr) 6.07%

\*BMO = Before Market Open \*AMC = After Market Close

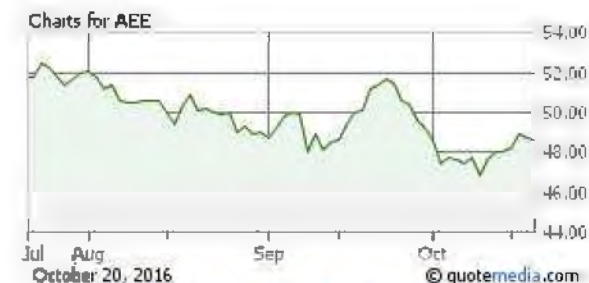
UTIL-ELEC PWR

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**Other News For AEE**

**Bullish Two Hundred Day Moving Average Cross ...**  
10/18/16-3:15AM EST Energy Stock Channel

**Ameren Corporation Increases Quarterly Cash...**  
10/14/16-1:58PM EST PR Newswire

**IPO Statistics: London AIM Market 2016 (ALLIPO)**  
10/14/16-7:22AM EST Alliance News

**Ameren declares \$0.44 dividend**  
10/14/16-1:16AM EST Seeking Alpha

**IPO Statistics: London AIM Market 2016 (ALLIPO)**  
10/07/16-7:40AM EST Alliance News



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QUOTES & NEWS

- Quote Overview
- Real Time Quotes
- News

ZACKS RESEARCH

- \* Snapshot
- \* Analyst Report
- \* Style Scores
- \* Detailed Estimates
- Comparison to Industry

MORE RESEARCH

- Full Company Report
- Broker Digest Report
- Earnings Announcements
- Broker Reports
- Insiders
- Broker Recommendations
- Earnings Transcripts

CHARTS

- Comparative
- Interactive Charts
- \* Price and Consensus
- Price, Consensus and EPS Surprise
- Price & EPS Surprise
- 12 Month EPS
- Broker Recommendations
- Fundamental Charts

FINANCIALS

**Avangrid Inc: (AGR)**

(Delayed Data From NYSE)

**\$39.55 USD**

**-0.54 (-1.35%)**

Updated Oct 20, 2016 04:02 PM ET

Volume: 598,708  
 Open: \$40.09  
 Prior Close: \$40.09

Zacks Rank [?]:

Style Scores [?]:

+ Add to portfolio

Trades from \$3

4-Sell

Value: **C** | Growth: **B** | Momentum: **B** | VGM: **3**

[View All Zacks Rank #1 Strong Buys](#)

**Quote Overview**

**Stock Activity**

Open	40.09
Day Low	39.52
Day High	40.37
52 Wk Low	32.45
52 Wk High	46.74
Avg. Volume	384,027
Market Cap	12.39 B
Dividend	1.73 ( 4.31%)
Beta	0.00
Industry	UTIL-ELEC PWR

**Key Earnings Data**

Forward PE	18.73
PEG Ratio	2.08
Current Qtr Est	0.60
Current Yr Est	2.14
Most Accurate Est	0.65
Qtr Earnings ESP[?]	8.33%
Exp Earnings Date	*BMO10/25/16
Prior Year EPS	NA
Exp EPS Growth (3-5yr)	9.00%

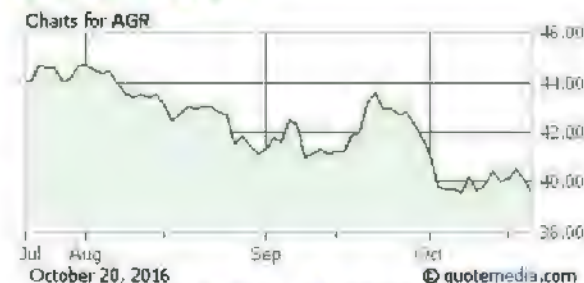
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**Other News For AGR**

- AVANGRID Revises its Third Quarter 2016...  
10/18/16-4:25PM EST Business Wire
- UK Dividends Calendar - Next 7 Days  
10/18/16-11:04AM EST Alliance News
- UK Dividends Calendar - Next 7 Days  
10/17/16-11:01AM EST Alliance News
- UK Dividends Calendar - Next 7 Days  
10/14/16-10:59AM EST Alliance News
- UK Dividends Calendar - Next 7 Days  
10/13/16-11:06AM EST Alliance News





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## QUOTES &amp; NEWS

Quote Overview

Real Time Quotes

News

## ZACKS RESEARCH

\* Snapshot

\* Analyst Report

\* Style Scores

\* Detailed Estimates

Comparison to Industry

## MORE RESEARCH

Full Company Report

Broker Digest Report

Earnings Announcements

Broker Reports

Insiders

Broker Recommendations

Earnings Transcripts

## CHARTS

Comparative

Interactive Charts

\* Price and Consensus

Price, Consensus and  
EPS Surprise

Price &amp; EPS Surprise

12 Month EPS

Broker Recommendations

Fundamental Charts

## FINANCIALS

## Avista Corp: (AVA)

(Delayed Data From NYSE)

\$40.47 USD

+0.15 (0.37%)

Updated Oct 20, 2016 04:02 PM ET

Volume: 174,084

Open: \$40.41

Prior Close: \$40.32

Zacks Rank [?]:

Style Scores [?]:

+ Add to portfolio

Trades from \$3

2-Buy     

Value: C | Growth: F | Momentum: B | VGM: 0

[View All Zacks Rank #1 Strong Buys](#)

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Enter Symbol

## Stock Activity

Open 40.41

Day Low 40.15

Day High 40.61

52 Wk Low 32.61

52 Wk High 45.22

Avg. Volume 259,171

Market Cap 2.57 B

Dividend 1.37 ( 3.40%)

Beta 0.40

Industry

## Key Earnings Data

Forward PE 19.26

PEG Ratio 3.63

Current Qtr Est 0.21

Current Yr Est 2.09

Most Accurate Est 0.22

Qtr Earnings ESP<sup>[?]</sup> 4.76%Exp Earnings Date <sup>\*BMO</sup>11/1/16

Prior Year EPS 1.89

Exp EPS Growth (3-5yr) 5.30%

UTIL-ELEC PWR

\*BMO = Before Market Open \*AMC = After Market Close

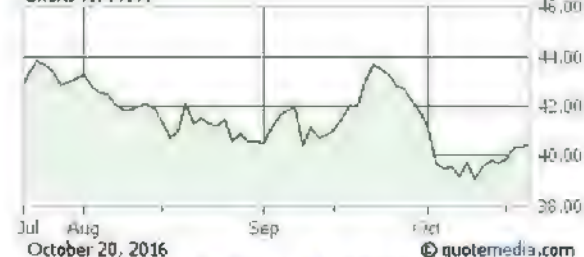
## Research Report For AVA

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Charts for AVA

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## Other News For AVA

Avista Reaches Analyst Target Price

10/14/16-8:45AM EST ETF Channel

Valuation Dashboard: Utilities - Update

10/07/16-2:30AM EST Seeking Alpha

AVA Crosses Below Key Moving Average Level

10/04/16-3:15AM EST Energy Stock Channel

Avista Corp. Third Quarter 2016 Earnings...

10/03/16-4:01PM EST Marketwire

Avista Corp. Joins Energy Impact Partners Utility  
WP-29

09/28/16-8:56AM EST Marketwire



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QUOTES & NEWS

- Quote Overview
- Real Time Quotes
- News

ZACKS RESEARCH

- \* Snapshot
- \* Analyst Report
- \* Style Scores
- \* Detailed Estimates
- Comparison to Industry

MORE RESEARCH

- Full Company Report
- Broker Digest Report
- Earnings Announcements
- Broker Reports
- Insiders
- Broker Recommendations
- Earnings Transcripts

CHARTS

- Comparative
- Interactive Charts
- \* Price and Consensus
- Price, Consensus and EPS Surprise
- Price & EPS Surprise
- 12 Month EPS

- Broker Recommendations
- Fundamental Charts

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**Black Hills Cor: (BKH)**

(Delayed Data From NYSE)

**\$59.70 USD**

+0.16 (0.27%)

Updated Oct 20, 2016 04:02 PM ET

Volume: 230,840  
 Open: \$59.56  
 Prior Close: \$59.54

Zacks Rank [?]:

Style Scores [?]:

+ Add to portfolio

Trades from \$3

2-Buy

Value: C | Growth: F | Momentum: F | VGM: F

[View All Zacks Rank #1 Strong Buys](#)

**Quote Overview**

Enter Symbol

**Stock Activity**

Open	59.56
Day Low	59.27
Day High	59.89
52 Wk Low	40.00
52 Wk High	64.58
Avg. Volume	400,757
Market Cap	3.12 B
Dividend	1.68 ( 2.85%)
Beta	0.76
Industry	UTIL-ELEC PWR

**Key Earnings Data**

Forward PE	19.49
PEG Ratio	3.34
Current Qtr Est	0.42
Current Yr Est	3.02
Most Accurate Est	0.36
Qtr Earnings ESP[?]	-14.29%
Exp Earnings Date	*AMC11/2/16
Prior Year EPS	2.98
Exp EPS Growth (3-5yr)	5.84%

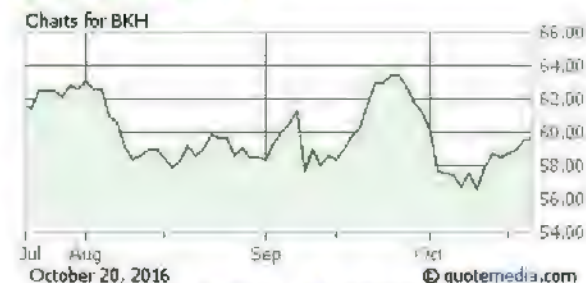
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**Other News For BKH**

- Which Commodity Groups Pulled KSU's Carloads...**  
10/18/16-7:16AM EST Market Realist
- Black Hills Larger Than S&P 500 Component Endo...**  
10/17/16-3:45AM EST The Online Investor
- Black Hills Stock Sees Short Interest Drop 18%**  
10/13/16-2:47AM EST Market News Video
- Which Commodity Groups Dragged on KSU's...**  
10/10/16-9:16AM EST Market Realist
- Black Hills Corp. Schedules 2016 Third Quarter**  
10/05/16-4:56PM EST Thomson Reuters





QUOTES & NEWS

- Quote Overview
- Real Time Quotes
- News

ZACKS RESEARCH

- \* Snapshot
- \* Analyst Report
- \* Style Scores
- \* Qualified Estimates
- Comparison to Industry

MORE RESEARCH

- Full Company Report
- Broker Digest Report
- Earnings Announcements
- Broker Reports
- Insiders
- Dividend Recommendations
- Earnings Transcripts

CHARTS

- Comparative
- Interactive Charts
- \* Price and Consensus
- Price, Consensus and EPS Surprise
- Price & EPS Surprise
- 12 Month EPS

- Broker Recommendations
- Fundamental Data

FINANCIALS

**Centerpoint Egy: (CNP)**

(Delayed Data From NYSE)

**\$22.66 USD**

+0.03 (0.13%)

Updated Oct 20, 2016 04:00 PM ET

Volume: 2,790,600

Open: \$22.61

Prior Close: \$22.63

Zacks Rank <sup>[?]</sup>:

Style Scores <sup>[?]</sup>:

[+](#) Add to portfolio

[Trade from](#)

3-Hold

Value: **C** | Growth: **C** | Momentum: **B** | VGM:

[View All Zacks Rank #1 Strong Buys](#)

**Quote Overview**

Enter Symbol

Stock Activity

Open 22.61

Day Low 22.54

Day High 22.79

52 Wk Low 16.05

52 Wk High 24.71

Avg. Volume 3,016,747

Market Cap 9.75 B

Dividend 1.03 ( 4.55%)

Beta 0.48

Industry

Key Earnings Data

Forward PE 19.62

PEG Ratio 3.57

Current Qtr Est 0.36

Current Yr Est 1.15

Most Accurate Est 0.37

Qtr Earnings ESP<sup>[?]</sup> 2.78%

Exp Earnings Date <sup>\*BMO</sup>11/4/16

Prior Year EPS 1.08

Exp EPS Growth (3-5yr) 5.50%

UTIL-ELEC PWR

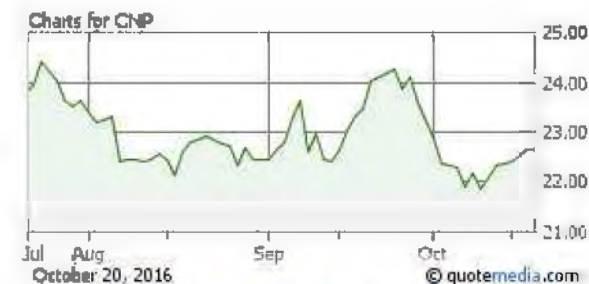
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**Other News For CNP**

Analyzing Utility Stocks' Implied Volatility  
10/20/16-9:00AM EST Market Realist

My Third Quarter Portfolio Review - Focus On...  
10/17/16-10:16AM EST Seeking Alpha

Analyzing Utility Stocks' Implied Volatility  
10/17/16-7:15AM EST Market Realist

Dividend Update - September 2016  
10/11/16-11:31AM EST Seeking Alpha

Enable Midstream Announces Third Quarter 2016  
10/07/16-4:56PM EST Business Wire



QUOTES & NEWS

- Quote Overview
- Real Time Quotes
- News

ZACKS RESEARCH

- \* Snapshot
- \* Analyst Report
- \* Style Scores
- \* Qualified Estimates
- Comparison to Industry

MORE RESEARCH

- Full Company Report
- Broker Digest Report
- Earnings Announcements
- Broker Reports
- Insiders
- Dividend Recommendations
- Earnings Transcripts

CHARTS

- Comparative
- Interactive Charts
- \* Price and Consensus
- Price, Consensus and EPS Surprise
- Price & EPS Surprise
- 12 Month EPS

- Broker Recommendations
- Fundamental Charts

FINANCIALS

**Cms Energy: (CMS)**

(Delayed Data From NYSE)

**\$41.35 USD**

-0.01 (-0.02%)

Updated Oct 20, 2016 04:01 PM ET

Volume: 1,808,404

Open: \$41.47

Prior Close: \$41.36

Zacks Rank [?]:

Style Scores [?]:

+ Add to portfolio

Trades from

1-Strong Buy

Value: C | Growth: C | Momentum: C | VGM:

[View All Zacks Rank #1 Strong Buys](#)

**Quote Overview**

Enter Symbol

**Stock Activity**

Open	41.47
Day Low	41.25
Day High	41.87
52 Wk Low	33.84
52 Wk High	46.25
Avg. Volume	1,897,182
Market Cap	11.57 B
Dividend	1.24 ( 2.99%)
Beta	0.12
Industry	UTIL-ELEC PWR

**Key Earnings Data**

Forward PE	20.54
PEG Ratio	3.11
Current Qtr Est	0.57
Current Yr Est	2.02
Most Accurate Est	0.60
Qtr Earnings ESP[?]	5.26%
Exp Earnings Date	*BMO 10/27/16
Prior Year EPS	1.89
Exp EPS Growth (3-5yr)	6.60%

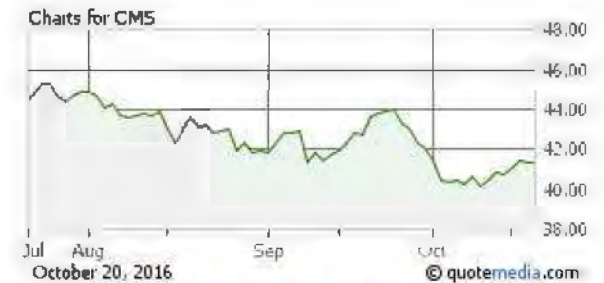
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**Other News For CMS**

**CMS Energy Board Of Directors Declares...**

10/20/16-10:56AM EST PR Newswire

**CMS Energy declares \$0.31 dividend**

10/20/16-1:15AM EST Seeking Alpha

**CMS Energy To Announce Third-Quarter Results...**

10/19/16-4:26PM EST PR Newswire

**Pure Michigan Utility Summit Highlights...**

10/18/16-8:56AM EST PR Newswire

**Consumers Energy, Partners Provide \$12 Million in...**

10/17/16-5:56AM EST PR Newswire





**QUOTES & NEWS**

- Quote Overview
- Real Time Quotes
- News

**ZACKS RESEARCH**

- \* Snapshot
- \* Analyst Report
- \* Style Scores
- \* Detailed Estimates
- Comparison to Industry

**MORE RESEARCH**

- Full Company Report
- Broker Digest Report
- Earnings Announcements
- Broker Reports
- Insiders
- Broker Recommendations
- Earnings Transcripts

**CHARTS**

- Comparative
- Interactive Charts
- \* Price and Consensus
- Price, Consensus and EPS Surprise
- Price & EPS Surprise
- 12 Month EPS
- Broker Recommendations
- Fundamental Charts

**FINANCIALS**

**Consol Edison: (ED)**

(Delayed Data From NYSE)

**\$73.62 USD**

+0.18 (0.25%)

Updated Oct 20, 2016 04:01 PM ET

Volume: 989,415  
 Open: \$73.53  
 Prior Close: \$73.44

Zacks Rank [?]:

Style Scores [?]:

+ Add to portfolio Trades from \$3

3-Hold

Value: **B** | Growth: **C** | Momentum: **C** | VGM:

[View All Zacks Rank #1 Strong Buys](#)

**Quote Overview**

Enter Symbol

**Stock Activity**

Open	73.53
Day Low	73.34
Day High	74.25
52 Wk Low	60.30
52 Wk High	81.88
Avg. Volume	1,822,997
Market Cap	22.36 B
Dividend	2.68 ( 3.66%)
Beta	0.01
Industry	UTIL-ELEC PWR

**Key Earnings Data**

Forward PE	18.43
PEG Ratio	6.52
Current Qtr Est	1.54
Current Yr Est	3.97
Most Accurate Est	1.48
Qtr Earnings ESP[?]	-3.90%
Exp Earnings Date	*AMC11/3/16
Prior Year EPS	4.06
Exp EPS Growth (3-5yr)	2.83%

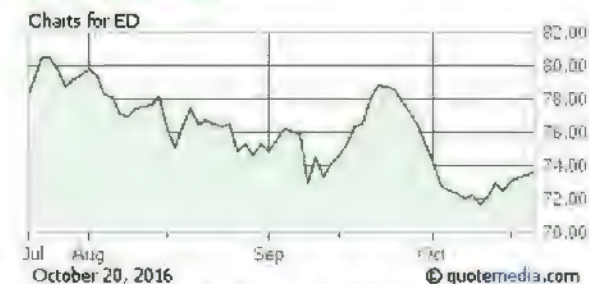
\*BMO = Before Market Open \*AMC = After Market Close

**Research Reports For ED**

[All Zacks' Analyst Reports >](#)

**Zacks News For ED**

**Chart for ED**



[Interactive Chart](#) | [Fundamental Charts](#)

**Other News For ED**

**Con Edison Declares Common Stock Dividend**  
 10/20/16-3:32PM EST Marketwire

**Which Utility Stocks Lead in Short Interest?**  
 10/20/16-9:00AM EST Market Realist

**The Coming Bear And How To Prepare (Richard...)**  
 10/20/16-8:15AM EST Seeking Alpha

**Consolidated Edison declares \$0.67 dividend**  
 10/20/16-3:46AM EST Seeking Alpha

**Why Bother Monitoring Your Portfolio If You're Not**  
 10/18/16-7:01AM EST Seeking Alpha



## QUOTES &amp; NEWS

Quote Overview

Real Time Quotes

News

## ZACKS RESEARCH

\* Snapshot

\* Analyst Report

\* Style Scores

\* Qualified Estimates

Comparison to Industry

## MORE RESEARCH

Full Company Report

Broker Digest Report

Earnings Advancements

Broker Reports

Insiders

Dividend Recommendations

Earnings Transcripts

## CHARTS

Comparative

Interactive Charts

\* Price and Consensus

Price, Consensus and  
EPS Surprise

Price &amp; EPS Surprise

12 Month EPS

Broker Recommendations

Fundamental Charts

## FINANCIALS

## Dte Energy Co: (DTE)

(Delayed Data From NYSE)

\$93.11 USD

+0.35 (0.38%)

Updated Oct 20, 2016 04:01 PM ET

Volume: 1,181,832

Open: \$93.00

Prior Close: \$92.76

Zacks Rank <sup>[?]</sup>:Style Scores <sup>[?]</sup>:

+ Add to portfolio

Trades from

2-Buy  2    Value: B | Growth: C | Momentum: A | VGM: [View All Zacks Rank #1 Strong Buys](#)

## Quote Overview

Enter Symbol

## Stock Activity

Open 93.00

Day Low 92.71

Day High 93.85

52 Wk Low 77.35

52 Wk High 100.45

Avg. Volume 1,747,804

Market Cap 16.64 B

Dividend 3.08 ( 3.32%)

Beta 0.25

Industry

## Key Earnings Data

Forward PE 17.83

PEG Ratio 3.07

Current Qtr Est 1.51

Current Yr Est 5.21

Most Accurate Est 1.58

Qtr Earnings ESP<sup>[?]</sup> 4.64%

Exp Earnings Date \*BMO 10/26/16

Prior Year EPS 4.82

Exp EPS Growth (3-5yr) 5.80%

UTIL-ELEC PWR

\*BMO = Before Market Open \*AMC = After Market Close

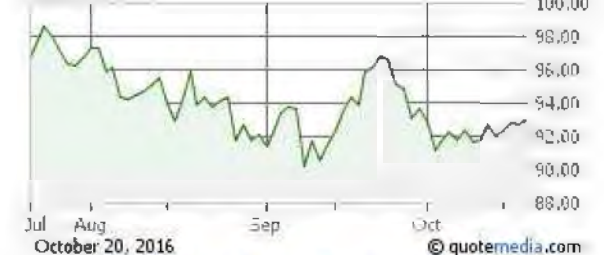
## Research Reports For DTE

[All Zacks' Analyst Reports >](#)

## Zacks News For DTE

## Chart for DTE

Charts for DTE

[Interactive Chart](#) | [Fundamental Charts](#)

## Other News For DTE

DTE Energy closes purchase of natural gas...

10/20/16-4:11PM EST PR Newswire

US stocks snap 2-day winning streak, close...

10/20/16-10:28AM EST Associated Press, The

T-Mobile to Host Q3 2016 Earnings Call on October...

10/20/16-7:26AM EST Business Wire

EnergySavvy Introduces the Fifth Generation of its...

10/19/16-8:56AM EST PR Web

6 Stocks To Buy As Inflation Advances In September

10/19/16-2:30AM EST TalkMarkets





Our Research. Your Success.

QUOTES & NEWS

Quote Overview

Real Time Quotes

News

ZACKS RESEARCH

\* Snapshot

\* Analyst Report

\* Style Scores

\* Qualified Estimates

Comparison to Industry

MORE RESEARCH

Full Company Report

Broker Digest Report

Earnings Announcements

Broker Reports

Insiders

Dividend Recommendations

Earnings Transcripts

CHARTS

Comparative

Interactive Charts

\* Price and Consensus

Price, Consensus and EPS Surprise

Price & EPS Surprise

12 Month EPS

Broker Recommendations

Fundamental Charts

FINANCIALS

Entergy Corp: (ETR)

(Delayed Data From NYSE)

\$74.51 USD

-0.38 (-0.51%)

Updated Oct 20, 2016 04:02 PM ET

Volume: 782,328

Open: \$74.76

Prior Close: \$74.89

Zacks Rank [?]:

Style Scores [?]:

+ Add to portfolio

Trades from

2-Buy  2

Value: B | Growth: C | Momentum: B | VGM:

[View All Zacks Rank #1 Strong Buys](#)

Quote Overview

Enter Symbol

Stock Activity

Open 74.76

Day Low 74.36

Day High 75.07

52 Wk Low 64.11

52 Wk High 82.09

Avg. Volume 1,533,218

Market Cap 13.40 B

Dividend 3.40 ( 4.54%)

Beta 0.38

Industry

Key Earnings Data

Forward PE 10.80

PEG Ratio -2.44

Current Qtr Est 1.86

Current Yr Est 6.94

Most Accurate Est 2.01

Qtr Earnings ESP [?] 8.07%

Exp Earnings Date \*BMO 10/25/16

Prior Year EPS 6.00

Exp EPS Growth (3-5yr) -4.43%

\*BMO = Before Market Open \*AMC = After Market Close

UTIL-ELEC PWR

Research Reports For ETR

[All Zacks' Analyst Reports >](#)

Zacks News For ETR

Chart for ETR



[Interactive Chart](#) | [Fundamental Charts](#)

Other News For ETR

Spark Energy Is Top Utility Dog For Gains Per...  
10/19/16-3:15AM EST Seeking Alpha

6 Stocks To Buy As Inflation Advances In September  
10/19/16-2:30AM EST TalkMarkets

Entergy Announces Third Quarter Earnings...  
10/18/16-4:54PM EST PR Newswire

PG&E added to Goldman's Conviction Buy List,...  
10/17/16-2:01AM EST Seeking Alpha

NY state probes oil spill at Indian Point nuclear  
10/03/16-11:16AM EST Seeking Alpha







QUOTES & NEWS

- Quote Overview
- Real Time Quotes
- News

ZACKS RESEARCH

- \* Snapshot
- \* Analyst Report
- \* Style Scores
- \* Qualified Estimates
- Comparison to Industry

MORE RESEARCH

- Full Company Report
- Broker Digest Report
- Earnings Announcements
- Broker Reports
- Insiders
- Dividend Recommendations
- Earnings Transcripts

CHARTS

- Comparative
- Interactive Charts
- \* Price and Consensus
- Price, Consensus and EPS Surprise
- Price & EPS Surprise
- 12 Month EPS

- Broker Recommendations
- Fundamental Charts

FINANCIALS

**Exelon Corp: (EXC)**

(Delayed Data From NYSE)

**\$32.84 USD**

-0.04 (-0.12%)

Updated Oct 20, 2016 04:00 PM ET

Volume: 3,584,918

Open: \$32.94

Prior Close: \$32.88

Zacks Rank [?]:

Style Scores [?]:

+ Add to portfolio

Trades from

3-Hold

Value: **A** | Growth: **B** | Momentum: **B** | VGM:

[View All Zacks Rank #1 Strong Buys](#)

**Quote Overview**

Enter Symbol

**Stock Activity**

Open 32.94

Day Low 32.66

Day High 33.02

52 Wk Low 25.09

52 Wk High 37.70

Avg. Volume 4,879,172

Market Cap 30.34 B

Dividend 1.27 ( 3.84%)

Beta 0.25

Industry UTIL-ELEC PWR

**Key Earnings Data**

Forward PE 12.95

PEG Ratio 3.54

Current Qtr Est 0.74

Current Yr Est 2.56

Most Accurate Est 0.73

Qtr Earnings ESP[?] -1.35%

Exp Earnings Date 11/4/16

Prior Year EPS 2.49

Exp EPS Growth (3-5yr) 3.66%

**Research Reports For EXC**

[All Zacks' Analyst Reports >](#)

**Zacks News For EXC**

Talen Energy Stockholders Approve Takeover by Riverstone

**Chart for EXC**



[Interactive Chart](#) | [Fundamental Charts](#)

**Other News For EXC**

First Year of BGE's SEED Program Provides...

10/20/16-4:30PM EST Business Wire

EXC, FE, and PEG: Analyzing Utilities' Current...

10/20/16-10:15AM EST Market Realist

Exelon's Regulated Utilities to Drive Its Earnings...

10/20/16-9:15AM EST Market Realist

With So Much at Play, Focus on This When...

10/20/16-9:15AM EST Market Realist

What Could Drive Exelon's Revenues in 3Q16?

10/20/16-7:15AM EST Market Realist





QUOTES & NEWS

- Quote Overview
- Real Time Quotes
- News

ZACKS RESEARCH

- \* Snapshot
- \* Analyst Report
- \* Style Scores
- \* Qualified Estimates
- Comparison to Industry

MORE RESEARCH

- Full Company Report
- Broker Digest Report
- Earnings Advancements
- Broker Reports
- Insiders
- Dividend Recommendations
- Earnings Transcripts

CHARTS

- Comparative
- Interactive Charts
- \* Price and Consensus
- Price, Consensus and EPS Surprise
- Price & EPS Surprise
- 12 Month EPS

- Broker Recommendations
- Fundamental Data

FINANCIALS

**Northwestern Cp: (NWE)**

(Delayed Data From NYSE)

**\$55.83 USD**

**-0.20 (-0.36%)**

Updated Oct 20, 2016 04:02 PM ET

Volume: 387,304  
 Open: \$55.67  
 Prior Close: \$56.03

Zacks Rank <sup>[?]</sup>:

Style Scores <sup>[?]</sup>:

+ Add to portfolio

Trades from

4-Sell

Value: **C** | Growth: **D** | Momentum: **A** | VGM:

[View All Zacks Rank #1 Strong Buys](#)

**Quote Overview**

Enter Symbol

Stock Activity

Open	55.67
Day Low	55.67
Day High	56.75
52 Wk Low	51.27
52 Wk High	63.75
Avg. Volume	656,803
Market Cap	2.71 B
Dividend	2.00 ( 3.57%)
Beta	0.39
Industry	UTIL-ELEC PWR

Key Earnings Data

Forward PE	17.26
PEG Ratio	3.45
Current Qtr Est	0.58
Current Yr Est	3.25
Most Accurate Est	0.54
Qtr Earnings ESP <sup>[?]</sup>	-6.90%
Exp Earnings Date	*BMO 10/20/16
Prior Year EPS	3.15
Exp EPS Growth (3-5yr)	5.00%

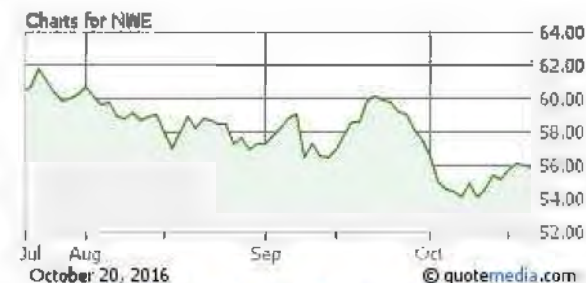
\*BMO = Before Market Open \*AMC = After Market Close

**Research Report For NWE**

[All Zacks' Analyst Reports >](#)

**Zacks News For NWE**

**Chart for NWE**



[Interactive Chart](#) | [Fundamental Charts](#)

**Other News For NWE**

NorthWestern Corporation 2016 Q3 - Results - ...  
 10/20/16-12:45PM EST Seeking Alpha

NorthWestern beats 3Q profit forecasts  
 10/20/16-8:06AM EST Associated Press, The

NorthWestern Reports Third Quarter 2016 Financial...  
 10/20/16-5:56AM EST PR Newswire

NorthWestern beats by \$0.05, beats on revenue  
 10/20/16-5:15AM EST Seeking Alpha

Notable earnings before Thursday's open  
 10/19/16-4:31AM EST Seeking Alpha

WP-29

MCKenzie

Page 13 of 22



Our Research. Your Success.

QUOTES & NEWS

Quote Overview

Real Time Quotes

News

ZACKS RESEARCH

\* Snapshot

\* Analyst Report

\* Style Scores

\* Qualified Estimates

Comparison to Industry

MORE RESEARCH

Full Company Report

Broker Digest Report

Earnings Advices/Estimates

Broker Reports

Insiders

Dividend Recommendations

Earnings Transcripts

CHARTS

Comparative

Interactive Charts

\* Price and Consensus

Price, Consensus and EPS Surprise

Price & EPS Surprise

12 Month EPS

Broker Recommendations

Fundamental Charts

FINANCIALS

**Pg&E Corp: (PCG)**

(Delayed Data From NYSE)

**\$60.84 USD**

**-0.05 (-0.08%)**

Updated Oct 20, 2016 04:00 PM ET

Volume: 1,532,847

Open: \$60.98

Prior Close: \$60.89

Zacks Rank <sup>[?]</sup>:

Style Scores <sup>[?]</sup>:

+ Add to portfolio

Trades from

3-Hold

Value: **C** | Growth: **D** | Momentum: **B** | VGM:

[View All Zacks Rank #1 Strong Buys](#)

**Quote Overview**

Enter Symbol

**Stock Activity**

Open 60.98

Day Low 60.69

Day High 61.26

52 Wk Low 50.65

52 Wk High 65.43

Avg. Volume 2,883,166

Market Cap 30.69 B

Dividend 1.96 ( 3.22%)

Beta 0.22

Industry

**Key Earnings Data**

Forward PE 16.28

PEG Ratio 3.78

Current Qtr Est 1.24

Current Yr Est 3.74

Most Accurate Est 1.15

Qtr Earnings ESP<sup>[?]</sup> -7.26%

Exp Earnings Date <sup>\*BMO</sup>11/4/16

Prior Year EPS 3.12

Exp EPS Growth (3-5yr) 4.30%

\*BMO = Before Market Open \*AMC = After Market Close

UTIL-ELEC PWR

**Research Reports For PCG**

[All Zacks' Analyst Reports >](#)

**Zacks News For PCG**

**Chart for PCG**



[Interactive Chart](#) | [Fundamental Charts](#)

**Other News For PCG**

**PG&E Recognized by the United States Hispanic...**  
10/20/16-2:56PM EST Business Wire

**PG&E (PCG) Stock Closed Higher, Goldman Adds...**  
10/17/16-3:15AM EST TheStreet.com

**PG&E added to Goldman's Conviction Buy List,...**  
10/17/16-2:01AM EST Seeking Alpha

**PPL Corp.: High Dividend Yield But Understand...**  
10/14/16-11:31AM EST Seeking Alpha

**US stocks inch higher as banks rise and...**  
10/14/16-1:10AM EST Associated Press, The

WP-29  
MCKenzie  
Page 14 of 22





Our Research. Your Success.

QUOTES & NEWS

Quote Overview

Real Time Quotes

News

ZACKS RESEARCH

\* Snapshot

\* Analyst Report

\* Style Scores

\* Qualified Estimates

Comparison to Industry

MORE RESEARCH

Full Company Report

Broker Digest Report

Earnings Announcements

Broker Reports

Insiders

Dividend Recommendations

Earnings Transcripts

CHARTS

Comparative

Interactive Charts

\* Price and Consensus

Price, Consensus and EPS Surprise

Price & EPS Surprise

12 Month EPS

Broker Recommendations

Fundamental Charts

FINANCIALS

**Ppl Corp: (PPL)**

(Delayed Data From NYSE)

**\$33.58 USD**

+0.22 (0.66%)

Updated Oct 20, 2016 04:02 PM ET

Volume: 5,049,774

Open: \$33.42

Prior Close: \$33.36

Zacks Rank <sup>[?]</sup>:

Style Scores <sup>[?]</sup>:

+ Add to portfolio

Track from

3-Hold

Value: **C** | Growth: **D** | Momentum: **B** | VGM:

[View All Zacks Rank #1 Strong Buys](#)

**Quote Overview**

Enter Symbol

Stock Activity

Open 33.42

Day Low 33.29

Day High 33.68

52 Wk Low 32.08

52 Wk High 39.92

Avg. Volume 5,859,879

Market Cap 22.62 B

Dividend 1.52 ( 4.55%)

Beta 0.38

Industry

Key Earnings Data

Forward PE 14.28

PEG Ratio 4.05

Current Qtr Est 0.56

Current Yr Est 2.34

Most Accurate Est 0.54

Qtr Earnings ESP<sup>[?]</sup> -3.57%

Exp Earnings Date <sup>\*BMO</sup>10/12/16

Prior Year EPS 2.21

Exp EPS Growth (3-5yr) **3.53%**

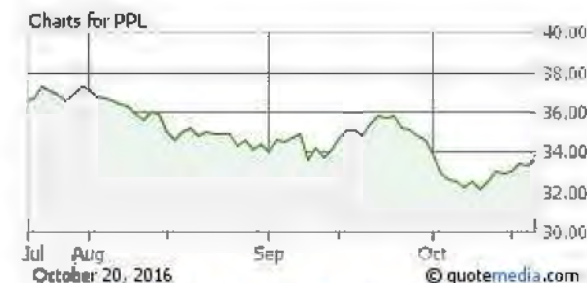
\*BMO = Before Market Open \*AMC = After Market Close

**Research Reports For PPL**

[All Zacks' Analyst Reports >](#)

**Zacks News For PPL**

**Chart for PPL**



[Interactive Chart](#) | [Fundamental Charts](#)

**Other News For PPL**

PPL Corporation to Conduct Webcast on 2016...

10/19/16-2:01PM EST PR Newswire

Analysts Expect 11% Upside for American Electric...

10/19/16-10:15AM EST Market Realist

Understanding Xcel Energy's Price Targets ahead...

10/19/16-9:15AM EST Market Realist

Spark Energy Is Top Utility Dog For Gains Per...

10/19/16-3:15AM EST Seeking Alpha

PPL Corp.: High Dividend Yield But Understand...

10/14/16-11:31AM EST Seeking Alpha





QUOTES & NEWS

- Quote Overview
- Real Time Quotes
- News

ZACKS RESEARCH

- \* Snapshot
- \* Analyst Report
- \* Style Scores
- \* Qualified Estimates
- Comparison to Industry

MORE RESEARCH

- Full Company Report
- Broker Digest Report
- Earnings Advancements
- Broker Reports
- Insiders
- Dividend Recommendations
- Earnings Transcripts

CHARTS

- Comparative
- Interactive Charts
- \* Price and Consensus
- Price, Consensus and EPS Surprise
- Price & EPS Surprise
- 12 Month EPS

- Broker Recommendations
- Fundamental Charts

FINANCIALS

**Public Sv Entrp: (PEG)**

(Delayed Data From NYSE)

**\$41.28 USD**

**-0.14 (-0.34%)**

Updated Oct 20, 2016 04:02 PM ET

Volume: 3,119,824

Open: \$41.43

Prior Close: \$41.42

Zacks Rank <sup>[?]</sup>:

Style Scores <sup>[?]</sup>:

+ Add to portfolio

Trades from

3-Hold

Value: **B** | Growth: **D** | Momentum: **B** | VGM:

[View All Zacks Rank #1 Strong Buys](#)

**Quote Overview**

Enter Symbol

Stock Activity

Open 41.43

Day Low 41.21

Day High 41.71

52 Wk Low 36.80

52 Wk High 47.41

Avg. Volume 3,006,371

Market Cap 20.96 B

Dividend 1.64 ( 3.92%)

Beta 0.25

Industry UTIL-ELEC PWR

Key Earnings Data

Forward PE 14.54

PEG Ratio 3.28

Current Qtr Est 0.85

Current Yr Est 2.88

Most Accurate Est 0.81

Qtr Earnings ESP<sup>[?]</sup> -4.71%

Exp Earnings Date <sup>\*BMO</sup>10/31/16

Prior Year EPS 2.91

Exp EPS Growth (3-5yr) 4.43%

\*BMO = Before Market Open \*AMC = After Market Close

**Research Reports For PEG**

[All Zacks' Analyst Reports >](#)

**Zacks News For PEG**

**Chart for PEG**



[Interactive Chart](#) | [Fundamental Charts](#)

**Other News For PEG**

**PSEG Names FERC Veteran, Larry Gasteiger,...**  
10/20/16-9:56AM EST PR Newswire

**What Could Drive Exelon's Revenues in 3Q16?**  
10/20/16-7:15AM EST Market Realist

**Pattern Energy Completes Acquisition of Arrow...**  
10/18/16-7:14AM EST PR Newswire

**Hasbro and SuperValu rise, JB Hunt and Marathon...**  
10/17/16-4:30PM EST Associated Press, The

**Markets Right Now: Stocks move slightly lower on...**  
10/17/16-9:40AM EST Associated Press, The



Our Research. Your Success.

QUOTES & NEWS

Quote Overview

Real Time Quotes

News

ZACKS RESEARCH

\* Snapshot

\* Analyst Report

\* Style Scores

\* Qualified Estimates

Comparison to Industry

MORE RESEARCH

Full Company Report

Broker Digest Report

Earnings Announcements

Broker Reports

Insiders

Dividend Recommendations

Earnings Transcripts

CHARTS

Comparative

Interactive Charts

\* Price and Consensus

Price, Consensus and EPS Surprise

Price & EPS Surprise

12 Month EPS

Broker Recommendations

Fundamental Data

FINANCIALS

**Scana Corp: (SCG)**

(Delayed Data From NYSE)

**\$70.53 USD**

**-0.11 (-0.16%)**

Updated Oct 20, 2016 04:02 PM ET

Volume: 476,978

Open: \$70.64

Prior Close: \$70.64

Zacks Rank <sup>[?]</sup>:

Style Scores <sup>[?]</sup>:

+ Add to portfolio

Trade from

3-Hold

Value: C | Growth: F | Momentum: C | VGM:

[View All Zacks Rank #1 Strong Buys](#)

**Quote Overview**

Enter Symbol

**Stock Activity**

Open 70.64

Day Low 70.42

Day High 71.15

52 Wk Low 55.85

52 Wk High 76.41

Avg. Volume 759,758

Market Cap 10.10 B

Dividend 2.30 ( 3.26%)

Beta 0.24

Industry

**Key Earnings Data**

Forward PE 17.67

PEG Ratio 3.24

Current Qtr Est 1.05

Current Yr Est 3.99

Most Accurate Est 1.05

Qtr Earnings ESP<sup>[?]</sup> 0.00%

Exp Earnings Date <sup>\*BMO</sup>10/27/16

Prior Year EPS 3.73

Exp EPS Growth (3-5yr) 5.45%

\*BMO = Before Market Open \*AMC = After Market Close

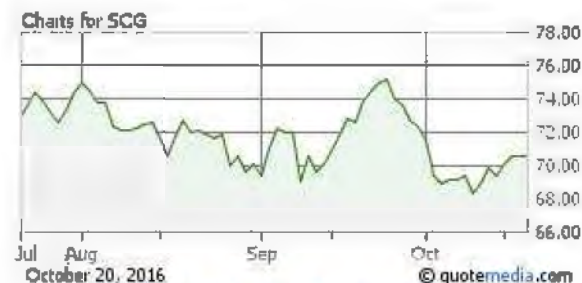
UTIL-ELEC PWR

**Research Reports For SCG**

[All Zacks' Analyst Reports >](#)

**Zacks News For SCG**

**Chart for SCG**



[Interactive Chart](#) | [Fundamental Charts](#)

**Other News For SCG**

**Which Utility Stocks Lead in Short Interest?**

10/20/16-9:00AM EST Market Realist

**Public Service Commission of South Carolina...**

10/19/16-4:26PM EST PR Newswire

**My Third Quarter Portfolio Review - Focus On...**

10/17/16-10:16AM EST Seeking Alpha

**Why Investors Are Bearish on Certain Utility Stocks**

10/17/16-7:15AM EST Market Realist

**The New #109 Most Shorted S&P 500 Component...**

10/13/16-6:15AM EST Market News Video

WP-29





## QUOTES &amp; NEWS

Quote Overview

Real Time Quotes

News

## ZACKS RESEARCH

\* Snapshot

\* Analyst Report

\* Style Scores

\* Qualified Estimates

Comparison to Industry

## MORE RESEARCH

Full Company Report

Broker Digest Report

Earnings Announcements

Broker Reports

Insiders

Dividend Recommendations

Earnings Transcripts

## CHARTS

Comparative

Interactive Charts

\* Price and Consensus

Price, Consensus and  
EPS Surprise

Price &amp; EPS Surprise

12 Month EPS

Broker Recommendations

Fundamental Charts

## FINANCIALS

## Sempra Energy: (SRE)

(Delayed Data From NYSE)

\$105.35 USD

+0.70 (0.67%)

Updated Oct 20, 2016 04:02 PM ET

Volume: 1,016,996

Open: \$104.78

Prior Close: \$104.65

Zacks Rank <sup>[?]</sup>:Style Scores <sup>[?]</sup>:

+ Add to portfolio

Track from

4-Sell

Value: D | Growth: F | Momentum: D | VGM: F

[View All Zacks Rank #1 Strong Buys](#)

## Quote Overview

Enter Symbol

## Stock Activity

Open 104.78

Day Low 104.66

Day High 105.57

52 Wk Low 86.72

52 Wk High 114.66

Avg. Volume 1,181,991

Market Cap 26.14 B

Dividend 3.02 ( 2.87%)

Beta 0.49

Industry

## Key Earnings Data

Forward PE 21.84

PEG Ratio 3.15

Current Qtr Est 0.94

Current Yr Est 4.81

Most Accurate Est 0.92

Qtr Earnings ESP<sup>[?]</sup> -2.13%

Exp Earnings Date 11/1/18

Prior Year EPS 5.21

Exp EPS Growth (3-5yr) 6.93%

UTIL-GAS DISTR

## Research Reports For SRE

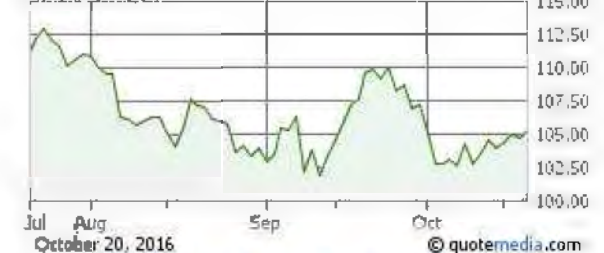
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## Zacks News For SRE

Alliant (LNT) to Expand Wind Portfolio with 500MW Projects

## Chart for SRE

Charts for SRE

[Interactive Chart](#) | [Fundamental Charts](#)

## Other News For SRE

Sempra Energy Takes Over #174 Spot From Sysco

10/20/16-3:45AM EST The Online Investor

Sempra Energy To Report Third-Quarter 2016...

10/19/16-7:26PM EST PR Newswire

Commercial UAV Expo, October 31 - November 2:...

10/19/16-8:56AM EST PR Web

SoCalGas Provides Update on Infrastructure,...

10/19/16-6:56AM EST PR Newswire

After Calif. leak, feds seek to curtail natural gas

10/16/16-10:59AM EST Associated Press, The



QUOTES & NEWS

- Quote Overview
- Real Time Quotes
- News

ZACKS RESEARCH

- \* Snapshot
- \* Analyst Report
- \* Style Scores
- \* Qualified Estimates
- Comparison to Industry

MORE RESEARCH

- Full Company Report
- Broker Digest Report
- Earnings Announcements
- Broker Reports
- Insiders
- Dividend Recommendations
- Earnings Transcripts

CHARTS

- Comparative
- Interactive Charts
- \* Price and Consensus
- Price, Consensus and EPS Surprise
- Price & EPS Surprise
- 12 Month EPS

- Broker Recommendations
- Fundamental Charts

FINANCIALS

**Southern Co: (SO)**

(Delayed Data From NYSE)

**\$50.72 USD**

-0.01 (-0.02%)

Updated Oct 20, 2016 04:00 PM ET

Volume: 3,177,812

Open: \$50.85

Prior Close: \$50.73

Zacks Rank <sup>[?]</sup>:

Style Scores <sup>[?]</sup>:

+ Add to portfolio

Track from

2-Buy

Value: C | Growth: F | Momentum: C | VGM:

[View All Zacks Rank #1 Strong Buys](#)

**Quote Overview**

Enter Symbol

**Stock Activity**

Open 50.85

Day Low 50.58

Day High 51.21

52 Wk Low 43.38

52 Wk High 54.64

Avg. Volume 5,393,011

Market Cap 49.65 B

Dividend 2.24 ( 4.38%)

Beta 0.08

Industry

**Key Earnings Data**

Forward PE 17.75

PEG Ratio 4.51

Current Qtr Est 1.17

Current Yr Est 2.88

Most Accurate Est 1.17

Qtr Earnings ESP<sup>[?]</sup> 0.00%

Exp Earnings Date <sup>\*BMO</sup>10/31/16

Prior Year EPS 2.89

Exp EPS Growth (3-5yr) 3.93%

UTIL-ELEC PWR

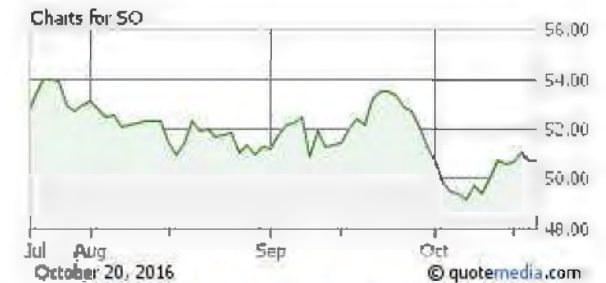
\*BMO = Before Market Open \*AMC = After Market Close

**Research Reports For SO**

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**Zacks News For SO**

**Chart for SO**



[Interactive Chart](#) | [Fundamental Charts](#)

**Other News For SO**

With So Much at Play, Focus on This When...

10/20/16-9:15AM EST Market Realist

Returns of Utility Stocks with High and Low...

10/20/16-9:00AM EST Market Realist

Kinder Morgan Inc. Earnings Are Right on Target

10/20/16-7:15AM EST TheMotleyFool

Coal 2.0: Cleaner? Conceivably; Crucial? Certainly

10/20/16-2:00AM EST Seeking Alpha

Workers at Vogtle nuclear expansion top 25 million

10/19/16-3:49PM EST PR Newswire





## QUOTES &amp; NEWS

- Quote Overview
- Real Time Quotes
- News

## ZACKS RESEARCH

- \* Snapshot
- \* Analyst Report
- \* Style Scores
- \* Detailed Estimates
- Comparison to Industry

## MORE RESEARCH

- Full Company Report
- Broker Digest Report
- Earnings Announcements
- Broker Reports
- Insiders
- Broker Recommendations
- Earnings Transcripts

## CHARTS

- Comparative
- Interactive Charts
- \* Price and Consensus
- Price, Consensus and EPS Surprise
- Price & EPS Surprise
- 12 Month EPS
- Broker Recommendations
- Fundamental Charts

## FINANCIALS

## Vectren Corp: (VVC)

(Delayed Data From NYSE)

\$48.54 USD

-0.14 (-0.29%)

Updated Oct 20, 2016 04:02 PM ET

Volume: 212,259

Open: \$48.74

Prior Close: \$48.68

Zacks Rank [?]:

Style Scores [?]:

+ Add to portfolio

Trades from \$3

3-Hold     Value: B | Growth: D | Momentum: C | VGM: [View All Zacks Rank #1 Strong Buys](#)

## Quote Overview

Enter Symbol

## Stock Activity

Open 48.74

Day Low 48.31

Day High 48.87

52 Wk Low 39.43

52 Wk High 53.33

Avg. Volume 310,174

Market Cap 4.03 B

Dividend 1.60 ( 3.29%)

Beta 0.60

Industry

## Key Earnings Data

Forward PE 19.66

PEG Ratio 3.69

Current Qtr Est 0.64

Current Yr Est 2.48

Most Accurate Est 0.64

Qtr Earnings ESP<sup>[?]</sup> 0.00%

Exp Earnings Date \*AMC11/2/16

Prior Year EPS 2.39

Exp EPS Growth (3-5yr) 5.33%

UTIL-GAS DISTR

\*BMO = Before Market Open \*AMC = After Market Close

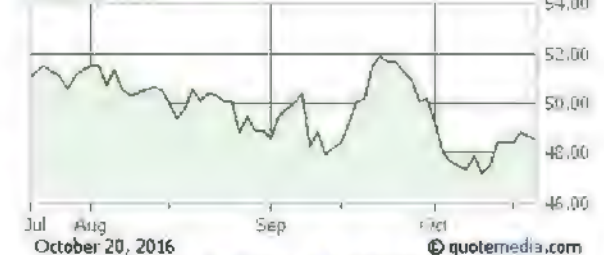
## Research Report For VVC

[All Zacks' Analyst Reports >](#)

## Zacks News For VVC

## Chart for VVC

Charts for VVC

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## Other News For VVC

Let Thermo Fisher Scientific Come Down Before...  
10/20/16-6:45AM EST Seeking Alpha

'Mad Money' Lightning Round: Stick With AMN...  
10/20/16-5:15AM EST TheStreet.com

Dividend Champions: 23 Increases Expected By...  
10/17/16-1:31AM EST Seeking Alpha

Vectren Schedules 2016 Third Quarter Earnings...  
10/14/16-10:27AM EST Marketwire

AT&T Gains Pace October Champion Dogs WP-29  
10/11/16-10:01AM EST Seeking Alpha

MCKenzie  
Page 20 of 22





QUOTES & NEWS

- Quote Overview
- Real Time Quotes
- News

ZACKS RESEARCH

- \* Snapshot
- \* Analyst Report
- \* Style Scores
- \* Qualified Estimates
- Comparison to Industry

MORE RESEARCH

- Full Company Report
- Broker Digest Report
- Earnings Advancements
- Broker Reports
- Insiders
- Dividend Recommendations
- Earnings Transcripts

CHARTS

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- Interactive Charts
- \* Price and Consensus
- Price, Consensus and EPS Surprise
- Price & EPS Surprise
- 12 Month EPS

- Broker Recommendations
- Fundamental Data

FINANCIALS

**Wec Energy Grp: (WEC)**

(Delayed Data From NYSE)

**\$58.06 USD**

**-0.12 (-0.21%)**

Updated Oct 20, 2016 04:00 PM ET

Volume: 1,663,209  
 Open: \$58.24  
 Prior Close: \$58.18

Zacks Rank <sup>[?]</sup>:

Style Scores <sup>[?]</sup>:

+ Add to portfolio

Trades from

2-Buy

Value: **C** | Growth: **C** | Momentum: **B** | VGM:

[View All Zacks Rank #1 Strong Buys](#)

**Quote Overview**

Enter Symbol

**Stock Activity**

Open	58.24
Day Low	57.87
Day High	58.54
52 Wk Low	47.98
52 Wk High	66.10
Avg. Volume	1,851,095
Market Cap	18.36 B
Dividend	1.98 ( 3.40%)
Beta	0.08
Industry	UTIL-ELEC PWR

**Key Earnings Data**

Forward PE	19.89
PEG Ratio	3.19
Current Qtr Est	0.59
Current Yr Est	2.93
Most Accurate Est	0.62
Qtr Earnings ESP <sup>[?]</sup>	5.09%
Exp Earnings Date <sup>*BMO</sup>	10/26/16
Prior Year EPS	2.73
Exp EPS Growth (3-5yr)	6.23%

\*BMO = Before Market Open \*AMC = After Market Close

**Research Reports For WEC**

[All Zacks' Analyst Reports >](#)

**Zacks News For WEC**

**Chart for WEC**



[Interactive Chart](#) | [Fundamental Charts](#)

**Other News For WEC**

**WEC Energy Group declares quarterly dividend**  
 10/20/16-3:21PM EST PR Newswire

**Wisconsin Electric declares quarterly dividends**  
 10/20/16-3:20PM EST PR Newswire

**Which Utility Stocks Lead in Short Interest?**  
 10/20/16-9:00AM EST Market Realist

**Wisconsin Energy declares \$0.495 dividend**  
 10/20/16-3:46AM EST Seeking Alpha

**WEC Energy Group announces 2016 third-quarter**  
 10/19/16-11:20AM EST PR Newswire



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## QUOTES &amp; NEWS

Quote Overview

Real Time Quotes

News

## ZACKS RESEARCH

\* Snapshot

\* Analyst Report

\* Style Scores

\* Detailed Estimates

Comparison to Industry

## MORE RESEARCH

Full Company Report

Broker Digest Report

Earnings Announcements

Broker Reports

Insiders

Broker Recommendations

Earnings Transcripts

## CHARTS

Comparative

Interactive Charts

\* Price and Consensus

Price, Consensus and  
EPS Surprise

Price &amp; EPS Surprise

12 Month EPS

Broker Recommendations

Fundamental Charts

## FINANCIALS

## Xcel Energy Inc: (XEL)

(Delayed Data From NYSE)

\$40.39 USD

+0.07 (0.17%)

Updated Oct 20, 2016 04:00 PM ET

Volume: 2,771,403

Open: \$40.39

Prior Close: \$40.32

Zacks Rank [?]:

Style Scores [?]:

+ Add to portfolio

Trades from \$3

2-Buy     Value: B | Growth: F | Momentum: A | VGM: [View All Zacks Rank #1 Strong Buys](#)

## Quote Overview

Enter Symbol

## Stock Activity

Open 40.39

Day Low 40.20

Day High 40.65

52 Wk Low 34.33

52 Wk High 45.42

Avg. Volume 3,525,219

Market Cap 20.48 B

Dividend 1.36 ( 3.35%)

Beta 0.13

Industry

## Key Earnings Data

Forward PE 18.47

PEG Ratio 3.40

Current Qtr Est 0.88

Current Yr Est 2.19

Most Accurate Est 0.87

Qtr Earnings ESP[?] -1.14%

Exp Earnings Date \*BMO 10/27/16

Prior Year EPS 2.09

Exp EPS Growth (3-5yr) 5.44%

\*BMO = Before Market Open \*AMC = After Market Close

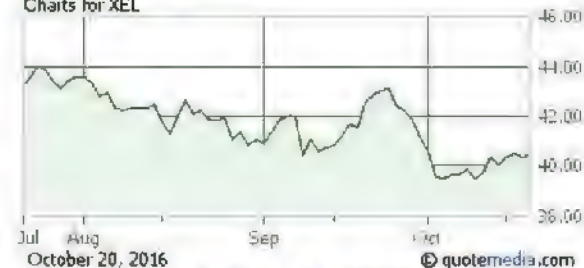
## Research Reports For XEL

[All Zacks' Analyst Reports >](#)

## Zacks News For XEL

## Chart for XEL

Charts for XEL

[Interactive Chart | Fundamental Charts](#)

## Other News For XEL

Understanding Xcel Energy's Price Targets ahead...  
10/19/16-9:15AM EST Market Realist

A Key Look at Utility Valuations after the Recent...  
10/19/16-7:15AM EST Market Realist

These Factors Could Drive Xcel Energy's...  
10/18/16-12:30PM EST Market Realist

Is Xcel Energy Poised for Long-Term Growth?  
10/18/16-4:15AM EST Market Realist

Will Xcel Energy Meet Analysts' Upbeat... WP-29  
10/18/16-2:15AM EST Market Realist





# COCA-COLA NYSE-KO

RECENT PRICE **41.54** P/E RATIO **21.7** (Trailing: 21.4 Median: 19.0) RELATIVE P/E RATIO **1.19** DIV'D YLD **3.5%** VALUE LINE

<b>TIMELINESS</b> 2 Raised 10/14/16	High: 22.6	24.7	32.2	32.8	29.7	32.9	35.9	40.7	43.4	45.0	43.9	47.1		Target Price	Range
<b>SAFETY</b> 1 New 7/27/90	Low: 20.2	19.7	22.8	20.1	18.7	24.7	30.6	33.3	36.5	36.9	36.6	40.8		2019	2021
<b>TECHNICAL</b> 2 Raised 10/21/16	<b>LEGENDS</b> 16.0 x "Cash Flow" p sh Relative Price Strength 2-for-1 split 8/12 Options: Yes Shaded area indicates recession														
<b>BETA</b> .70 (1.00 = Market)	<b>2019-21 PROJECTIONS</b> Price Gain Ann'l Total High 55 (+30%) 10% Low 45 (+10%) 6%														
<b>Insider Decisions</b>	D J F M A M J J A to Buy 0 0 0 0 0 0 0 0 to Sell 2 0 2 9 4 1 1 0 Options 1 0 1 8 4 1 1 0														
<b>Institutional Decisions</b>	4Q2015 1Q2016 2Q2016 to Buy 676 688 729 to Sell 796 791 783 Net 0 0 0 0 0 0 0 0														
Percent shares traded: 15, 10, 5													% TOT. RETURN 9/16 THIS STOCK VL ARITH. INDEX 1 yr. 8.8 17.7 3 yr. 22.6 23.7 5 yr. 45.4 108.1		

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	© VALUE LINE PUB. LLC	19-21
4.12	3.53	3.96	4.31	4.56	4.88	5.20	6.22	6.91	6.73	7.66	10.29	10.74	10.64	10.54	10.24	9.65	7.90	Sales per sh	8.90
.89	.96	.99	1.16	1.23	1.29	1.40	1.54	1.79	1.75	2.09	2.41	2.46	2.58	2.53	2.49	2.40	2.40	"Cash Flow" per sh	3.00
.74	.80	.83	.98	1.03	1.09	1.19	1.29	1.51	1.47	1.75	1.92	1.97	2.08	2.04	2.00	1.90	2.00	Earnings per sh <sup>A</sup>	2.55
.34	.36	.40	.44	.50	.56	.62	.68	.76	.82	.88	.94	1.02	1.12	1.22	1.32	1.40	1.48	Div'ds Decl'd per sh <sup>B</sup>	1.85
.15	.15	.17	.17	.16	.19	.30	.36	.43	.43	.48	.65	.62	.58	.55	.59	.65	.50	Cap'l Spending per sh	.50
1.87	2.29	2.39	2.89	3.31	3.45	3.65	4.69	4.43	5.38	6.76	6.99	7.34	7.54	6.94	5.91	5.80	5.55	Book Value per sh <sup>C</sup>	5.05
4969.5	4972.5	4942.0	4883.1	4818.7	4738.0	4636.0	4636.0	4624.0	4606.0	4584.0	4526.0	4469.0	4402.0	4366.0	4324.0	4275.0	4200.0	Common Shs Outst'g <sup>D</sup>	4000.0
37.5	30.5	30.2	22.6	22.6	19.7	18.5	21.0	17.8	16.6	16.2	17.4	18.8	19.1	20.0	20.6	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	19.0
2.44	1.56	1.65	1.29	1.19	1.05	1.00	1.11	1.07	1.11	1.03	1.09	1.20	1.07	1.05	1.04			Relative P/E Ratio	1.20
1.2%	1.5%	1.6%	2.0%	2.2%	2.6%	2.8%	2.5%	2.8%	3.4%	3.1%	2.8%	2.8%	2.8%	3.0%	3.2%			Avg Ann'l Div'd Yield	3.7%

CAPITAL STRUCTURE as of 7/1/16		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Debt \$48.048 bill. Due in 5 Yrs. \$28.7 bill.		24088	28857	31944	30990	35123	46554	48017	46854	45998	44294	41250	33250	Sales (\$mill)	
LT Debt \$29.252 bill. Total Int. \$550.0 mill.		31.3%	30.0%	30.3%	30.5%	31.4%	27.9%	26.6%	28.3%	28.1%	27.9%	28.5%	35.0%	Operating Margin	
(Total interest coverage: 19.9x)		938.0	1163.0	1228.0	1236.0	1443.0	1954.0	1982.0	1977.0	1976.0	1970.0	1950	1550	Depreciation (\$mill)	
(52% of Cap'l)		5568.0	5981.0	7050.0	6824.0	8144.0	8932.0	9019.0	9374.0	9091.0	8797.0	8275	8570	Net Profit (\$mill)	
Pension Assets-12/15 \$7.7 bill. Oblig. \$9.2 bill.		22.4%	24.0%	22.2%	22.8%	22.7%	23.9%	23.1%	23.0%	22.5%	22.5%	22.5%	22.5%	Income Tax Rate	
Pfd Stock None		23.1%	20.7%	22.1%	22.0%	23.2%	19.2%	18.8%	20.0%	19.8%	19.9%	20.1%	25.8%	Net Profit Margin	
Common Stock 4,315,000,000 shs.		d1449.0	d1120	d812.0	3830.0	3071.0	1214.0	2507.0	3493.0	612.0	6465.0	4750	5250	Working Cap'l (\$mill)	
MARKET CAP: \$179 billion (Large Cap)		1314.0	3277.0	2781.0	5059.0	14041	13656	14736	19154	19063	28407	28500	28500	Long-Term Debt (\$mill)	
CURRENT POSITION 2014 2015 7/1/16		16920	21744	20472	24799	31003	31635	32790	33173	30320	25554	24885	23410	Shr. Equity (\$mill)	
Cash Assets \$811.1		30.7%	24.2%	30.6%	23.4%	18.5%	20.2%	19.4%	18.3%	18.7%	16.5%	16.0%	17.0%	Return on Total Cap'l	
Receivables 4466		32.9%	27.5%	34.4%	27.5%	26.3%	28.2%	27.5%	28.3%	30.0%	34.4%	33.5%	36.5%	Return on Shr. Equity	
Inventory (Avg Cst) 3100		15.7%	13.0%	17.2%	12.2%	13.1%	14.6%	13.5%	13.3%	12.3%	12.0%	8.5%	9.5%	Retained to Com Eq	
Other 7410		52%	53%	50%	56%	50%	48%	51%	53%	59%	65%	74%	74%	All Div'ds to Net Prof	
Current Assets 32986		<b>BUSINESS:</b> The Coca-Cola Company is the world's largest beverage company. Markets over 500 nonalcoholic beverage brands through a network of company-owned and independent bottlers/distributors, wholesalers, and retailers. Leading company/licensed brands include Coca-Cola, Diet Coke, Sprite, Fanta, Fresca, Dasani, gaceau vitaminwater, Powerade, and Minute Maid.													
Accts Payable 2089		<b>Earnings at The Coca-Cola Company remain under pressure.</b> The biggest headwinds are foreign currency translation and structural changes (more below), which are likely to reduce pretax profits by 8%-9% and 4%, respectively, this year. The former has been particularly pronounced in Latin America, where the company generates about 20% of its operating profits. Absent these factors, the beverage giant's performance would look more encouraging, with pretax profits likely advancing at a mid-single-digit rate in 2016.													
Debt Due 22682		<b>Coca-Cola continues to slim down.</b> The company is putting more of its bottling operations, including all of those in North America, in the hands of independent partners. This refranchising effort, which is slated to wrap up by the end of 2017, will cause sales to shrink, but Coke should emerge as a higher-margin, less capital-intensive business. Too, incremental savings from productivity initiatives, as well as a continued emphasis on pricing and mix, ought to support wider margins. In all, we look for earnings climb 5% in 2017, to \$2.00 a share.													
Other 7603		<b>Conservative investors will likely want to take a closer look here.</b> These shares have endured a rough stretch, declining 7% since the release of June-quarter earnings, but still possess a number of appealing attributes. This equity carries our Highest rank (1) for Safety, and offers a dividend that is more than 100 basis points above the Value Line median. In addition, this equity has climbed a notch in our Timeliness Ranking System, which now pegs it to outperform the broader market in the year ahead.													
Current Liab. 32374		Robert M. Greene October 21, 2016													

ANNUAL RATES	Past 10 Yrs.	Past 5 Yrs.	Est'd '13-'15	'19-'21
of change (per sh)	8.5%	8.0%	8.0%	-2.5%
Sales	7.5%	6.0%	3.0%	
"Cash Flow"	7.0%	5.5%	4.0%	
Earnings	9.5%	8.5%	7.0%	
Dividends	8.0%	4.0%	-5.0%	

Cal-endar	QUARTERLY SALES (\$ mill.)				Full Year
	Mar.Per	Jun.Per	Sep.Per	Dec.Per	
2013	11035	12749	12030	11040	46854
2014	10576	12574	11976	10872	45998
2015	10711	12156	11427	10000	44294
2016	10282	11539	10429	9000	41250
2017	8000	9250	8500	7500	33250

Cal-endar	EARNINGS PER SHARE <sup>A</sup>				Full Year
	Mar.Per	Jun.Per	Sep.Per	Dec.Per	
2013	.46	.63	.53	.46	2.08
2014	.44	.64	.53	.43	2.04
2015	.48	.63	.51	.38	2.00
2016	.45	.60	.47	.38	1.90
2017	.46	.61	.52	.41	2.00

Cal-endar	QUARTERLY DIVIDENDS PAID <sup>B</sup>				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2012	--	.255	.255	.51	1.02
2013	--	.28	.28	.56	1.12
2014	--	.305	.305	.61	1.22
2015	--	.33	.33	.66	1.32
2016	--	.35	.35	.35	

(A) Based on diluted shares. Next earnings report due Oct. 26th. Excludes nonrecurring gain/(losses): '00, (30¢); '01, (1¢); '02, (22¢); '03, (9¢); '04, (3¢); '05, (7¢); '06, (11¢); '08, (27¢); '10, 79¢; '11, (8¢); '13, (18¢); '14, (44¢); '15, (\$0.33); '16 H1, (8¢). (B) Div'ds historically paid about the first April, July, Oct., Dec. (C) Includes intangibles. In '15: \$24.1 bill., '15, (\$0.33); '16 H1, (8¢). (D) In millions. (E) Reflects reclassification of sales and expenses.

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Company's Financial Strength	A++
Stock's Price Stability	100
Price Growth Persistence	50
Earnings Predictability	100

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COSTCO WHOLESALE NDQ-COST																	RECENT PRICE	P/E RATIO	(Trailing: 27.9 Median: 22.0)	RELATIVE P/E RATIO	DIV'D YLD	VALUE LINE	Page 4 of 12																							
TIMELINESS 4 Lowered 10/28/16		SAFETY 1 Raised 2/6/09		TECHNICAL 3 Lowered 10/21/16		BETA .75 (1.00 = Market)		High: 51.2 57.9 72.7 61.3 73.2 88.7 106.0 126.1 146.8 169.7 169.6		Low: 39.5 46.0 51.5 43.9 38.2 53.4 69.5 78.8 98.9 109.5 117.0 138.6		LEGENDS --- 18.0 x "Cash Flow" p sh ... Relative Price Strength Options: Yes Shaded area indicates recession		Target Price Range 2019 2020 2021																																
2019-21 PROJECTIONS																	Price Gain Ann'l Total																													
High 225 (+50%) 12%		Low 180 (+20%) 6%		Insider Decisions		Institutional Decisions		Percent shares traded		% TOT. RETURN 9/16		THIS STOCK		VL ARITH. INDEX																																
D J F M A M J J A		to Buy 0 0 0 0 0 0 0 0		to Sell 2 1 0 3 1 0 0 0		4Q2015 10Q2016 2Q2018		30 20 10		1 yr. 6.6 17.7		3 yr. 36.8 23.7		5 yr. 96.3 108.1																																
2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	© VALUE LINE PUB. LLC 19-21																												
71.83	77.03	85.13	93.00	103.98	112.04	130.12	148.53	167.59	163.88	179.80	204.75	229.30	240.72	257.36	265.32	271.35	294.50	Revenues per sh A D	390.70																											
1.98	2.00	2.29	2.43	2.86	3.12	3.50	4.05	4.48	4.25	4.85	5.34	6.13	6.69	7.05	7.90	8.24	8.90	"Cash Flow" per sh	11.50																											
1.35	1.29	1.48	1.53	1.86	2.04	2.31	2.63	2.89	2.57	2.93	3.30	3.97	4.49	4.65	5.27	5.33	5.90	Earnings per sh B	8.10																											
--	--	--	--	.20	.43	.49	.55	.61	.68	.77	.89	1.03	1.17	1.33	1.51	1.70	1.90	Div'ds Decl'd per sh C	2.20																											
9.47	10.81	12.51	14.33	16.48	18.80	19.78	19.73	21.25	22.98	24.98	27.64	28.59	24.80	28.11	24.24	27.61	30.25	Book Value per sh	37.55																											
447.76	451.75	455.33	457.48	462.64	472.48	462.28	437.01	432.51	435.97	433.51	434.27	432.35	436.84	437.68	437.95	437.52	438.00	Common Shs Outst'g	430.00																											
31.1	29.7	26.8	21.2	20.0	22.3	22.1	21.0	23.1	19.5	19.9	22.1	21.9	23.4	25.1	26.7	29.0		Avg Ann'l P/E Ratio	25.0																											
2.02	1.52	1.46	1.21	1.06	1.19	1.19	1.11	1.39	1.30	1.27	1.39	1.39	1.31	1.32	1.35	1.54		Relative P/E Ratio	1.55																											
--	--	--	--	.5%	.9%	1.0%	1.0%	.9%	1.4%	1.3%	1.2%	1.2%	1.1%	1.1%	1.1%	1.0%		Avg Ann'l Div'd Yield	1.1%																											
CAPITAL STRUCTURE as of 8/28/16																	Total Debt \$5161 mill. Due in 5 Yrs \$4458.0 mill.		60151		64909		72483		71449		77946		88915		99137		105156		112640		116199		118719		129000		Revenues (\$mill) A D		168000	
LT Debt \$4061 mill. LT Interest \$135 mill. (25% of Cap'l)																	12.3%		12.5%		12.4%		12.8%		12.8%		12.6%		12.4%		12.6%		13.0%		13.3%		13.0%		13.3%		13.0%		Gross Margin D		13.0%	
Leases, Uncapitalized Annual rentals \$200 mill.																	3.6%		3.6%		3.6%		3.6%		3.7%		3.7%		3.8%		3.8%		4.1%		4.2%		4.0%		4.0%		Operating Margin D		4.0%			
No Defined Benefit Pension Plan																	458		488		512		527		540		592		608		634		663		686		715		745		Number of Stores		825			
Pfd Stock None																	1103.2		1202.3		1282.7		1124.2		1307.5		1462.0		1741.0		1977.0		2058.0		2334.0		2350		2600		Net Profit (\$mill)		3485			
Common Stock 437,126,569 shs. as of 10/4/16																	37.0%		36.7%		35.8%		36.7%		36.1%		35.3%		34.5%		34.5%		34.7%		34.4%		34.3%		35.0%		Income Tax Rate		35.0%			
MARKET CAP: \$65.2 billion (Large Cap)																	1.8%		1.9%		1.8%		1.6%		1.7%		1.6%		1.8%		1.9%		1.8%		2.0%		2.0%		2.0%		2.0%		Net Profit Margin		2.0%	
CURRENT POSITION																	412.9		742.4		587.9		1056.0		1645.0		1656.0		1266.0		2583.0		3176.0		759.0		d357.0		1750		Working Cap'l (\$mill)		3100			
Cash Assets																	7315		6419		4729																									
Receivables																	1148		1224		1252																									
Inventory (LIFO)																	8456		8908		8969																									
Other																	669		748		268																									
Current Assets																	17588		17299		15278																									
Accts Payable																	8491		9011		7612																									
Debt Due																	--		1283		1100																									
Other																	5921		6246		6863																									
Current Liab.																	14412		16540		15575																									
ANNUAL RATES																	Past 10 Yrs.		Past 5 Yrs.		Est'd '13-'15 to '19-'21																									
Sales																	9.5%		8.5%		7.5%																									
"Cash Flow"																	10.0%		10.0%		8.0%																									
Earnings																	10.5%		11.5%		9.0%																									
Dividends																	20.5%		14.0%		8.5%																									
Book Value																	4.5%		2.0%		6.5%																									
Fiscal Year Ends																	2013		2014		2015		2016		2017		2018		2019		2020		2021		Full Fiscal Year											
QUARTERLY REVENUES (\$ mill.) A E E																	Nov.		Per		Feb.		Per		May		Per		Aug.		Per		Full Fiscal Year													
2013																	23715		24871		24083		32487		105156																					
2014																	25017		26306		25794		35523		112640																					
2015																	26866		27454		26101		35778		116199																					
2016																	27220		28170		26769		36560		118719																					
2017																	28500		30300		28600		41600		129000																					
Fiscal Year Ends																	2013		2014		2015		2016		2017		2018		2019		2020		2021		Full Fiscal Year											
EARNINGS PER SHARE A B E																	Nov.		Per		Feb.		Per		May		Per		Aug.		Per		Full Fiscal Year													
2013																	.95		1.10		1.04		1.40		4.49																					
2014																	.96		1.05		1.07		1.58		4.65																					
2015																	1.12		1.25		1.17		1.73		5.27																					
2016																	1.09		1.24		1.24		1.77		5.33																					
2017																	1.17		1.38		1.36		1.99		5.90																					
Cal-endar																	Mar.31		Jun.30		Sep.30		Dec.31		Full Year																					
2012																	.24		.275		.275		.275		1.06																					
2013																	.275		.31		.31		.31		1.21																					
2014																	.31		.355		.355		.355		1.375																					
2015																	.355		.40		.40		.40		1.56																					
2016																	.40		.45		.45																									

(A) Fiscal year ends on Sunday nearest Aug. 31st. Interim periods cover 12, 12, 12, and 16 weeks. (B) Excludes n/r gains/(losses): '05, 15¢; '07, (26¢); '09 (9¢); '10, (1¢); '12, (8¢); '13, (14¢). Next egs. report due early Dec. (C) Div'ds historically paid in mid-Feb., mid-May, early Aug., and mid-Nov. ■ Div'd reinvestment plan available. Special div'd of \$7.00 paid in 12/12; \$.00 in 2/15. (D) Incl. membership fees. (E) Totals may not sum due to rounding.

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**Costco Wholesale closed out fiscal 2016 in decent form.** Earnings per share advanced 2% year over year (6% excluding currency and gas deflation). Companywide sales increased 2% on flat same-store sales (up 3%). Adjusted comps included slightly positive average transaction growth and a 2.5% rise in traffic. The food and sundries category was slightly negative, but would have been up 3%, excluding tobacco products, which are being phased out. Tobacco should remain a headwind until early calendar 2017. Hardline sales grew mid-single digits, thanks to electronics, sporting goods, and health products. Softline receipts were up in the low single-digit range. For the month of September, adjusted comp results were slightly worse, growing only 1% companywide. **Deflation is picking up.** The price of protein products has declined the most, in general, with several types of meat down 5%-10%. Certain nonfood products are also experiencing this trend. Management expects these levels to remain fairly consistent for the next five or six months. **Disruptions caused by a credit card change have been resolved.** Costco transitioned its cobranded credit card from American Express to Visa/Citi in late June. The abrupt switch caused some confusion and frustration among customers initially, but management assured investors the hurdles have been overcome. Currently, more than 80% of accounts have transferred over, spending levels are already showing improvement over the American Express card, and new signups have exceeded expectations. Not only does the new card provide better benefits to customers, but the company saves on transaction costs. **Membership trends are solid.** Costco continues to enjoy industry-leading renewal rates. Further, based on the history of membership fee increases, another one is due within a year. **Conservative, long-term investors may want to consider this stock.** The untimely shares have taken a step back of late, owing to a slowdown in top-line growth. The P/E ratio has become more reasonable, but it's still relatively high. Nonetheless, risk-adjusted long-term price appreciation potential is solid. *Kevin Downing October 28, 2016*

Company's Financial Strength	A+
Stock's Price Stability	100
Price Growth Persistence	90
Earnings Predictability	100

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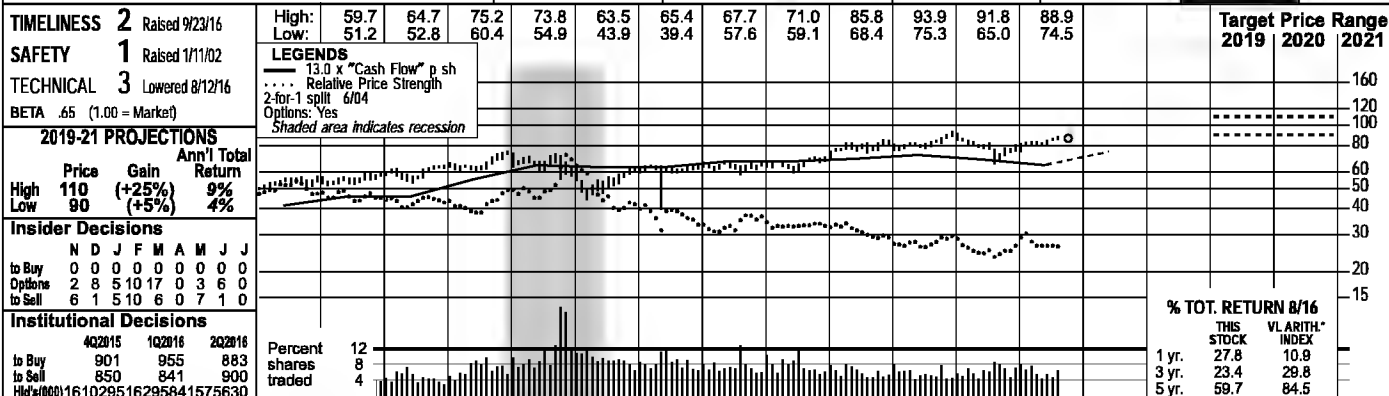
KELLOGG CO. NYSE-K		RECENT PRICE	76.05	P/E RATIO	20.6	(Trailing: 21.6) Median: 16.0	RELATIVE P/E RATIO	1.13	DIV'D YLD	2.7%	VALUE LINE								
TIMELINESS	2 Raised 3/18/16	High: 47.0	50.9	56.9	58.5	54.1	56.0	57.7	57.2	68.0	69.5	73.7	87.2	Target Price	Range				
SAFETY	1 Raised 1/30/09	Low: 42.3	42.4	48.7	40.3	35.6	47.3	48.1	46.3	56.0	55.7	61.1	68.7	2019	2020				
TECHNICAL	1 Raised 9/23/16	<b>LEGENDS</b> --- 14.0 x "Cash Flow" p sh ..... Relative Price Strength Options: Yes Shaded area indicates recession										2021							
BETA	.65 (1.00 = Market)																		
<b>2019-21 PROJECTIONS</b> Price Gain Ann'l Total High 105 (+40%) 11% Low 85 (+10%) 6%																			
<b>Insider Decisions</b> D J F M A M J J A to Buy 0 0 0 0 0 0 0 0 Options 0 0 6 0 0 3 0 0 to Sell 1 0 7 1 1 3 1 1																			
<b>Institutional Decisions</b> 4Q2015 1Q2016 2Q2016 to Buy 304 290 332 to Sell 272 294 274 Hdr's(000) 289607 288923 287695																			
<b>Percent shares traded</b> 18 12 6																			
<b>% TOT. RETURN 9/16</b> THIS STOCK VL ARITH. INDEX 1 yr. 19.6 17.7 3 yr. 43.8 23.7 5 yr. 69.3 108.1																			
2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	© VALUE LINE PUB. LLC	19-21
17.15	21.77	20.36	21.51	23.28	25.11	27.42	30.19	33.58	32.97	33.91	36.94	39.30	40.77	40.95	38.64	38.10	38.10	Sales per sh	44.10
2.32	2.39	2.60	2.83	3.15	3.39	3.41	3.78	3.99	4.18	4.48	4.48	4.83	5.27	5.34	5.12	5.25	5.25	"Cash Flow" per sh	6.90
1.61	1.31	1.73	1.93	2.16	2.36	2.51	2.76	2.99	3.16	3.30	3.38	3.37	3.77	3.87	3.53	3.65	3.65	Earnings per sh A	5.00
1.00	1.01	1.01	1.01	1.01	1.06	1.14	1.20	1.30	1.43	1.56	1.67	1.74	1.80	1.90	1.98	2.04	2.10	Div'de Decl'd per sh B	2.50
.57	.68	.62	.60	.67	.92	1.14	1.21	1.21	.99	1.30	1.66	1.48	1.76	1.63	1.58	1.70	1.75	Cap'l Spending per sh	1.90
2.21	2.14	2.19	3.52	5.47	5.63	5.20	6.48	3.79	5.96	5.90	4.93	6.70	9.77	7.83	6.08	6.75	8.35	Book Value per sh C	14.15
405.64	406.61	407.85	409.70	413.02	405.33	397.70	390.05	381.86	381.38	365.60	357.30	361.27	362.80	356.00	350.02	344.00	340.00	Common Shs Outst'g D	330.00
16.1	21.8	19.5	17.3	19.2	18.9	18.9	19.0	17.0	14.5	15.7	15.8	15.3	16.5	16.5	18.7	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	19.0
1.05	1.12	1.07	.99	1.01	1.01	1.02	1.01	1.02	.97	1.00	.99	.97	.93	.87	.95			Relative P/E Ratio	1.20
3.9%	3.5%	3.0%	3.0%	2.4%	2.4%	2.4%	2.3%	2.6%	3.1%	3.0%	3.1%	3.4%	2.9%	3.0%	3.0%			Avg Ann'l Div'd Yield	2.6%
<b>CAPITAL STRUCTURE as of 7/2/16</b> Total Debt \$920.1 mill. Due in 5 Yrs \$486.0 mill. LT Debt \$627.7 mill. LT Interest \$400 mill. (Total interest coverage: 5.3X) (76% of Cap'l)						10907	11776	12822	12575	12397	13198	14197	14792	14580	13525	13100	13200	Sales (\$mill)	14550
<b>Pension Assets-1/16 \$4.58 bill. Oblig. \$5.32 bill.</b>						19.4%	19.0%	18.2%	19.0%	19.2%	17.8%	16.7%	18.2%	18.2%	16.3%	19.3%	20.0%	Operating Margin	21.5%
<b>Pfd Stock None</b> <b>Common Stock 350,259,033 shs. as of 7/30/16</b>						352.7	372.0	375.0	384.0	392.0	369.0	448.0	532.0	503.0	534.0	520	525	Depreciation (\$mill)	575
						1004.1	1103.0	1148.0	1212.0	1247.0	1231.0	1297.2	1379.7	1397.3	1258.0	1285	1390	Net Profit (\$mill)	1705
						31.7%	28.7%	29.7%	28.3%	28.8%	29.0%	22.7%	28.4%	28.2%	27.0%	27.0%	27.0%	Income Tax Rate	27.0%
						9.2%	9.4%	9.0%	9.6%	10.1%	9.3%	9.1%	9.3%	9.6%	9.3%	9.8%	10.5%	Net Profit Margin	11.7%
						d1593	d1327	d1031	270.0	d269.0	d286.0	d1143	d568.0	d1024	d2503	d1725	d1450	Working Cap'l (\$mill)	900
						3053.0	3270.0	4068.0	4835.0	4908.0	5037.0	6082.0	6330.0	5935.0	5289.0	6250	6000	Long-Term Debt (\$mill)	6200
						2069.0	2526.0	1448.0	2272.0	2158.0	1760.0	2419.0	3545.0	2789.0	2128.0	2325	2835	Shr. Equity (\$mill)	4675
						21.8%	21.3%	23.1%	19.1%	19.9%	20.1%	16.8%	15.1%	17.3%	18.6%	17.5%	18.0%	Return on Total Cap'l	17.5%
						48.5%	43.7%	79.3%	53.3%	57.8%	69.9%	53.6%	38.9%	50.1%	59.1%	55.0%	49.0%	Return on Shr. Equity	36.5%
						26.8%	24.9%	45.1%	29.3%	30.7%	35.6%	27.9%	20.5%	25.7%	26.2%	24.0%	23.0%	Retained to Com Eq	18.5%
						45%	43%	43%	45%	47%	49%	48%	47%	49%	56%	56%	53%	All Div'ds to Net Prof	50%
<b>MARKET CAP: \$26.6 billion (Large Cap)</b>						<b>BUSINESS:</b> Kellogg Company and its subsidiaries manufacture and market ready-to-eat cereals and convenience foods, such as cookies, savory snacks, toaster pastries, cereal bars, fruit-flavored snacks, frozen waffles, and veggie foods. Brand names include: Kellogg's, Keebler, Pringles, Cheez-It, Murray, Austin, Famous Amos, Pop-Tarts, Eggo, and Nutri-Grain. Foreign operations: 45% of sales in 2015. Adv. costs: 6.6% of sales. Acquired Keebler, 3/01; Pringles, 5/12. Has about 33,575 employees. W.K. Kellogg Foundation controls 21.3% of common; KeyCorp, 7.8%; off/dir., 8.8% (3/16 proxy). Chairman & Chief Executive Officer: John Bryant, Inc.: DE. Address: One Kellogg Square, Battle Creek, MI 49016-3599. Telephone: 269-961-2000. Internet: www.kelloggs.com.													
<b>CURRENT POSITION (\$MILL.)</b> 2014 2015 7/2/16 Cash Assets 443 251 531 Receivables 1276 1344 1473 Inventory (Avg Cst) 1279 1250 1216 Other 342 391 201 Current Assets 3340 3236 3421 Accts Payable 1528 1907 1988 Debt Due 1435 2470 1924 Other 1401 1362 1359 Current Liab. 4364 5739 5271																			
<b>ANNUAL RATES</b> Past Past Est'd '13-'15 of change (per sh) 10 Yrs. 5 Yrs. to '19-'21 Sales 5.5% 3.5% 1.5% "Cash Flow" 5.5% 4.5% 5.0% Earnings 5.5% 3.5% 5.5% Dividends 6.5% 6.0% 5.5% Book Value 5.0% 8.5% 10.0%																			
<b>QUARTERLY SALES (\$ mill.)</b> Cal- Q1 Q2 Q3 Q4 Full end- Mar.Per Jun.Per Sep.Per Dec.Per Year 2013 3861 3714 3716 3501 14792 2014 3742 3685 3639 3514 14580 2015 3556 3498 3329 3142 13525 2016 3395 3268 3325 3112 13100 2017 3410 3295 3350 3145 13200																			
<b>EARNINGS PER SHARE A</b> Cal- Q1 Q2 Q3 Q4 Full end- Mar.Per Jun.Per Sep.Per Dec.Per Year 2013 .99 1.00 .95 .83 3.77 2014 1.01 1.02 .94 .90 3.87 2015 .98 .92 .85 .79 3.53 2016 .97 .91 .85 .92 3.65 2017 1.02 1.01 .99 .98 4.00																			
<b>QUARTERLY DIVIDENDS PAID B</b> Cal- Q1 Q2 Q3 Q4 Full end- Mar.31 Jun.30 Sep.30 Dec.31 Year 2012 .43 .43 .44 .44 1.74 2013 .44 .44 .46 .46 1.80 2014 .46 .46 .49 .49 1.90 2015 .49 .49 .50 .50 1.98 2016 .50 .50 .52																			
<b>Company's Financial Strength</b> Stock's Price Stability A Price Growth Persistence 100 Earnings Predictability 35 100																			

(A) Based on diluted shares. Excludes non-recurring gains (losses): '00, (\$0.16); '01, (\$0.14); '02, \$0.02; '12, (\$0.09); '13, \$1.17; '14, (\$2.12); '15, (\$1.81); '16 Q1-Q2, (\$0.59). Quarterly earnings may not sum to total due to a change in the share count. Next earnings report due November 1st. (B) Dividends historically paid mid-Mar, June, Sept., and Dec. (C) Includes intangibles. In '15: \$7.236 billion, \$20.67/sh. (D) In millions.



# PROCTER & GAMBLE NYSE-PG

RECENT PRICE **87.05** P/E RATIO **20.3** (Trailing: 23.7; Median: 18.0) RELATIVE P/E RATIO **1.10** DIV'D YLD **3.1%** VALUE LINE



Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2019-21
Price	15.30	15.14	15.47	16.72	20.21	22.95	21.46	24.42	27.53	27.09	27.81	29.85	30.45	30.69	30.64	28.10	24.47	25.15	32.90
"Cash Flow" per sh	2.41	2.53	2.55	2.82	3.18	3.51	3.51	4.25	4.97	4.86	4.87	5.21	5.20	5.33	5.57	5.31	4.97	5.75	7.40
Earnings per sh	1.48	1.56	1.80	2.04	2.32	2.53	2.64	3.04	3.64	3.58	3.53	3.93	3.85	4.05	4.22	4.02	3.67	4.50	6.15
Div'de Decl'd per sh	.64	.70	.76	.82	.93	1.03	1.15	1.28	1.45	1.64	1.80	1.97	2.14	2.29	2.45	2.59	2.66	2.85	3.30
Cap'l Spending per sh	1.16	.96	.85	.57	.80	.88	.84	.94	1.00	1.11	1.08	1.20	1.44	1.46	1.42	1.38	1.24	1.40	1.45
Book Value per sh	4.04	3.98	4.64	5.63	6.19	6.87	19.33	20.87	22.46	21.18	21.20	24.14	22.87	24.64	25.40	22.83	21.34	24.55	29.55
Common Shs Outst'g	2611.7	2591.5	2601.5	2594.4	2543.8	2472.9	3178.8	3131.9	3032.7	2917.0	2838.5	2765.7	2748.0	2742.3	2710.8	2714.5	2668.1	2635.0	2600.0
Avg Ann'l P/E Ratio	29.7	21.4	22.4	21.6	21.3	21.5	21.5	20.5	18.6	16.4	17.0	16.0	16.7	17.8	19.0	20.9	21.4		16.0
Relative P/E Ratio	1.93	1.10	1.22	1.23	1.13	1.14	1.16	1.09	1.12	1.09	1.08	1.00	1.06	1.00	1.00	1.05	1.14		1.00
Avg Ann'l Div'd Yield	1.5%	2.1%	1.9%	1.9%	1.9%	1.9%	2.0%	2.1%	2.1%	2.8%	3.0%	3.1%	3.3%	3.2%	3.1%	3.1%	3.4%		3.4%

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2019-21
Sales (\$mill)	68222	76476	83503	79029	78938	82559	83680	84167	83062	76279	65299	66280	66280	66280	66280	66280	66280	66280	85550
Operating Margin	23.3%	24.3%	24.2%	24.3%	24.2%	22.6%	22.6%	22.3%	23.7%	23.4%	26.2%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%
Depreciation (\$mill)	2627.0	3130.0	3166.0	3082.0	3108.0	2838.0	3204.0	2982.0	3141.0	3134.0	3078.0	3185	3185	3185	3185	3185	3185	3185	3250
Net Profit (\$mill)	8684.0	10340	12075	11293	10946	11797	11344	11869	12220	11535	10441	11925	11925	11925	11925	11925	11925	11925	16000
Income Tax Rate	30.0%	29.7%	24.9%	26.3%	27.3%	22.3%	24.2%	23.2%	23.5%	20.2%	24.6%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%
Net Profit Margin	12.7%	13.5%	14.5%	14.3%	13.9%	14.3%	13.6%	14.1%	14.7%	15.1%	16.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.7%
Working Cap'l (\$mill)	4344.0	d6686	d6443	d8996	d5500	d5323	d2997	d6047	d2109	d144.0	3012.0	d180	d180	d180	d180	d180	d180	d180	d100
Long-Term Debt (\$mill)	35976	23375	23581	20652	21360	22033	21080	19111	19811	18329	18945	19000	19000	19000	19000	19000	19000	19000	19000
Shr. Equity (\$mill)	62908	66760	69494	63099	61439	68001	64035	68709	69976	63050	57983	64650	64650	64650	64650	64650	64650	64650	76875
Return on Total Cap'l	9.3%	12.1%	13.8%	14.3%	13.8%	13.5%	13.8%	13.9%	14.0%	14.6%	13.9%	14.5%	14.5%	14.5%	14.5%	14.5%	14.5%	14.5%	16.5%
Return on Shr. Equity	13.8%	15.5%	17.4%	17.9%	17.8%	17.3%	17.7%	17.3%	17.5%	18.3%	18.0%	18.5%	18.5%	18.5%	18.5%	18.5%	18.5%	18.5%	21.0%
Retained to Com Eq	8.1%	9.4%	10.9%	10.1%	9.1%	9.0%	8.3%	7.9%	7.7%	6.9%	5.3%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	9.5%
All Div'ds to Net Prof	43%	41%	39%	45%	50%	49%	54%	55%	57%	63%	71%	73%	73%	73%	73%	73%	73%	73%	54%

**CAPITAL STRUCTURE as of 6/30/16**  
 Total Debt \$30,598 bill. Due in 5 Yrs \$18.950 bill.  
 LT Debt \$19,134 bill. LT Interest \$4.65 bill.  
 (Tot. Int. Coverage: 24.3x)  
 (25% of Tot. Cap'l)  
 Leases, Uncapitalized Annual Rentals \$259 mill.  
 Pension Assets-6/16 \$10.3 bill.  
 Oblig. \$17.3 bill.  
 Pfd Stock \$1.1 bill. Pfd Div'd \$255 mill.  
 (ESOP owns 49.3 mill Class A shares and 57.2 mill Class B shares; convertible into common stock.)  
 Common Stock 2,668,751,125 shares as of 7/31/16  
**MARKET CAP: \$232 billion (Large Cap)**

Year	2014	2015	6/30/16
Cash Assets	10686	11612	13348
Receivables	6386	4861	4373
Inventory (FIFO)	6759	5454	4716
Other	7786	7719	11345
Current Assets	31617	29646	33782
Accts Payable	8461	8257	9325
Debt Due	15606	12021	11653
Other	9659	9512	9792
Current Liab.	33726	29790	30770

**ANNUAL RATES** Past 10 Yrs. Past 5 Yrs. Est'd '14-'16 of change (per sh) to '19-'21

Sales	2.5%	-5%	3.5%
"Cash Flow"	4.5%	1.0%	7.0%
Earnings	4.5%	1.5%	9.0%
Dividends	9.5%	7.5%	5.0%
Book Value	8.0%	1.0%	5.0%

Fiscal Year Ends	Quarterly Sales (\$mill.) A	Full Fiscal Year
2013	20739 22175 20598 20655	84167
2014	20830 21897 20178 20157	83062
2015	20186 20161 18142 17790	76279
2016	16527 16915 15755 16102	65299
2017	16620 16975 16460 16225	66280

Fiscal Year Ends	Earnings per Share AB	Full Fiscal Year
2013	1.06 1.22 .99 .79	4.05
2014	1.05 1.20 1.02 .95	4.22
2015	1.04 1.06 .92 1.00	4.02
2016	.98 1.04 .86 .79	3.67
2017	1.25 1.25 1.00 1.00	4.50

Calendar	Quarterly Dividends Paid C	Full Year
2012	.525 .562 .562 .562	2.21
2013	.562 .602 .602 .602	2.37
2014	.602 .644 .644 .644	2.53
2015	.644 .663 .663 .663	2.63
2016	.663 .67 .67	

(A) Fiscal years end June 30th. (B) Diluted core earnings. Excludes nonrecurring: '00, (24¢); '01, (53¢); '02, (25¢); '03, (19¢); '08, (12¢); '09, (64¢); '10, 58¢; '11, (61¢); '12, (73¢); '13, d19¢; '14, d21¢. EPS not sum. Next earnings report due late October. (C) Dividends historically paid in Feb., May, Aug., and Nov. ■ DRIP available. (D) Includes intangibles. In '15: \$74.1 bill., \$27.30 a share. (E) In millions, adjusted for split.

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**Procter & Gamble should begin to recover this year.** (Fiscal year began July 1st.) Indeed, the consumer goods conglomerate has been hard hit by an unfavorable foreign exchange environment. The currency drag, deconsolidation of its Venezuelan assets, and minor brand divestitures weighed on its top and bottom lines, causing revenues and core earnings to slip 14% and 9%, respectively, in fiscal 2016. Nevertheless, management's efforts (discussed below) ought to bear fruit in the coming quarters. All told, we look for share profits to rebound between 20% and 25% this year. The strength of the U.S. dollar, however, will likely continue to temper top-line growth, and revenues may tick up only slightly in fiscal 2017. **Restructuring efforts are well under way.** The company completed the spinoff of its battery business last year, and plans to divest its beauty brands early next quarter. In the meanwhile, P&G will likely continue to strengthen its remaining businesses. It may well turn to productivity improvements, increase the scale of its manufacturing capabilities, and reduce overhead costs to bolster margins.

Ongoing cost-savings initiatives should boost profitability, as well. **P&G has been widening its reach.** The company will likely invest heavily in research & development and product innovation in the near term. It ought to launch new offerings to help it gain shelf space, and spur organic revenue growth. What's more, management anticipates to step up advertising spending by nearly \$1 billion, and this move should bolster its brand equity. To this end, P&G has magnified its media presence, both on social media and more traditional channels to capture additional market share. **This issue appears to be fairly valued at this juncture.** Even though these shares are ranked to outperform the broader market averages in the year ahead (Timeliness: 2), much of the capital gains we envision over the long haul is already factored into the recent quotation. That said, this blue chip holds good conservative appeal, and earns top scores for Financial Strength (A++) and Safety (1). Plus, it may appeal to investors seeking a good risk-adjusted income vehicle. *Orly Seidman* September 23, 2016

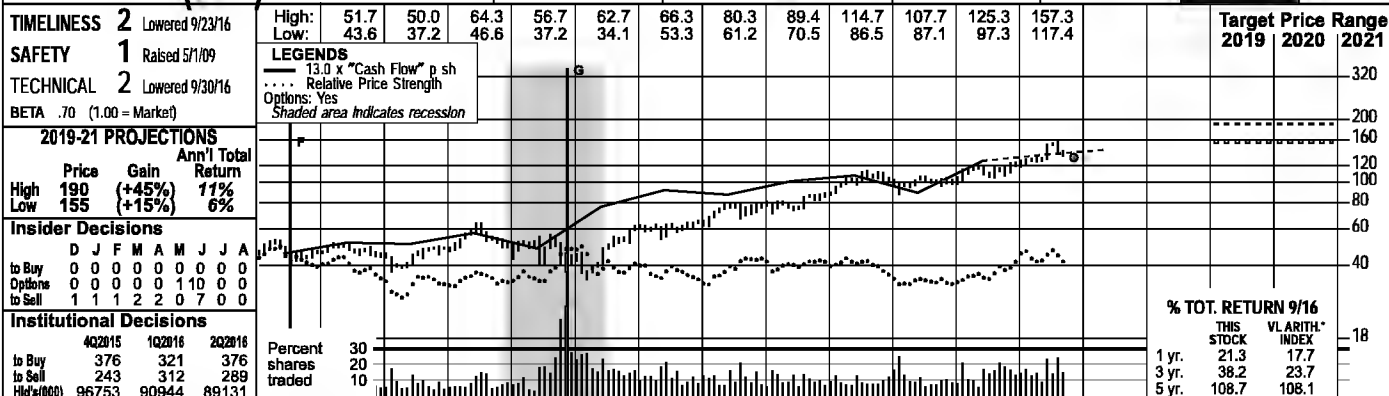
Company's Financial Strength	A++
Stock's Price Stability	100
Price Growth Persistence	25
Earnings Predictability	100

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# SMUCKER (J.M.) CO. NYSE-SJM

RECENT PRICE **132.17** P/E RATIO **20.2** (Trailing: 21.5; Median: 16.0) RELATIVE P/E RATIO **1.10** DIV'D YLD **2.3%** VALUE LINE



2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	© VALUE LINE PUB. LLC	19-21
26.73	27.63	26.36	28.24	34.91	37.84	37.83	46.22	31.73	38.66	42.27	50.10	55.38	55.17	47.61	67.16	<b>65.25</b>	<b>67.25</b>	Sales per sh <sup>A</sup>	<b>79.65</b>
2.46	2.52	2.86	3.20	3.52	3.97	3.94	4.42	3.73	5.90	7.06	6.75	7.85	8.30	6.87	9.75	<b>10.45</b>	<b>11.05</b>	"Cash Flow" per sh	<b>13.50</b>
1.28	1.37	2.19	2.40	2.60	2.89	2.89	3.15	3.77	4.37	4.79	4.73	5.37	5.84	5.35	5.89	<b>6.55</b>	<b>7.00</b>	Earnings per sh <sup>A,B</sup>	<b>8.60</b>
.63	.64	.83	.92	1.02	1.08	1.14	1.22	1.31	1.45	1.68	1.92	2.08	2.32	2.56	2.68	<b>2.92</b>	<b>3.00</b>	Div'de Decl'd per sh <sup>C</sup>	<b>3.50</b>
1.21	.94	1.00	2.00	1.50	1.11	1.00	1.40	.92	1.15	1.58	2.49	1.94	2.75	2.07	1.73	<b>2.05</b>	<b>2.15</b>	Cap'l Spending per sh	<b>2.65</b>
10.14	11.26	22.59	24.13	28.88	30.34	31.62	32.95	41.71	44.71	46.35	46.82	48.35	49.46	59.27	60.26	<b>63.70</b>	<b>67.40</b>	Book Value per sh <sup>D</sup>	<b>79.80</b>
24.36	24.87	49.77	50.17	58.54	56.95	56.78	54.62	118.42	119.12	114.17	110.28	106.49	101.70	119.58	116.31	<b>116.50</b>	<b>116.00</b>	Common Shs Outst'g <sup>E</sup>	<b>113.00</b>
17.7	22.4	16.5	18.4	18.1	17.1	16.5	16.9	12.0	12.5	13.2	16.2	16.0	18.3	19.6	20.1	<b>20.1</b>	<b>20.1</b>	Avg Ann'l P/E Ratio	<b>20.0</b>
1.15	1.15	.90	1.05	.96	.91	.89	.90	.72	.83	.84	1.02	1.02	1.03	1.03	1.01	<b>1.03</b>	<b>1.01</b>	Relative P/E Ratio	<b>1.25</b>
2.8%	2.1%	2.3%	2.1%	2.2%	2.4%	2.4%	2.3%	2.9%	2.7%	2.7%	2.5%	2.4%	2.2%	2.4%	2.3%	<b>2.4%</b>	<b>2.3%</b>	Avg Ann'l Div'd Yield	<b>1.9%</b>

CAPITAL STRUCTURE as of 7/31/16		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Debt \$5351.7 mill. Due in 5 Yrs \$1300 mill.		2148.0	2524.8	3757.9	4605.3	4825.7	5525.8	5897.7	5610.6	5692.7	7811.2	7600	7800	7811.2	7600	7800	7811.2	7600	7800
LT Debt \$5045.7 mill. LT Interest \$162.0 mill.		15.3%	14.1%	17.5%	22.1%	23.0%	20.1%	20.5%	21.4%	19.2%	20.0%	21.0%	21.5%	19.2%	20.0%	21.0%	21.5%	19.2%	20.0%
(Total interest coverage: 8.0x)		58.9	62.6	119.8	181.9	239.6	208.4	250.9	256.4	268.4	430.1	450	475	268.4	430.1	450	475	268.4	430.1
(42% of Cap'l)		164.6	178.9	321.4	520.3	565.5	535.6	584.5	588.0	552.9	704.2	765	805	552.9	704.2	765	805	552.9	704.2
Leases, Uncapitalized Annual rentals \$39.4 mill.		35.0%	33.1%	32.9%	33.1%	29.6%	35.3%	32.6%	32.8%	26.6%	29.1%	33.5%	34.0%	26.6%	29.1%	33.5%	34.0%	26.6%	29.1%
Pension Assets 4/16 \$505.6 mill.		7.7%	7.1%	8.6%	11.3%	11.7%	9.7%	9.9%	10.5%	9.7%	9.0%	10.1%	10.3%	9.7%	9.0%	10.1%	10.3%	9.7%	9.0%
Oblig. \$745.9 mill.		402.9	536.8	337.7	744.7	1154.3	1026.5	998.4	648.1	1029.7	360.4	550	725	1029.7	360.4	550	725	1029.7	360.4
Pfd Stock None		392.6	789.7	910.0	900.0	1304.0	2020.5	1967.8	1879.8	5944.9	5146.0	4900	4700	5944.9	5146.0	4900	4700	5944.9	5146.0
Common Stock 116,417,978 shs.		1795.7	1799.9	4939.9	5326.3	5292.4	5163.4	5148.8	5029.6	7086.9	7008.5	7425	7820	7086.9	7008.5	7425	7820	7086.9	7008.5
as of 8/24/16		8.1%	7.7%	6.0%	8.9%	9.1%	8.0%	8.9%	9.1%	4.5%	6.5%	7.0%	7.0%	4.5%	6.5%	7.0%	7.0%	4.5%	6.5%
MARKET CAP: \$15.4 billion (Large Cap)		9.2%	9.9%	6.5%	9.8%	10.7%	10.4%	11.4%	11.7%	7.8%	10.0%	10.5%	10.5%	7.8%	10.0%	10.5%	10.5%	7.8%	10.0%
CURRENT POSITION		5.6%	6.2%	4.3%	6.6%	7.0%	6.2%	7.0%	7.0%	4.2%	5.5%	5.5%	6.0%	4.2%	5.5%	5.5%	6.0%	4.2%	5.5%
2014		39%	38%	34%	32%	34%	40%	38%	40%	46%	45%	44%	43%	46%	45%	44%	43%	46%	45%
2015																			
7/31/16																			

**BUSINESS:** The J.M. Smucker Co. is a leading manufacturer of jams, jellies, coffee, and peanut butter. Also produces cooking oils, ice-cream toppings, juices, baking ingredients, and pet foods. In addition to the Smucker's brand, the company markets products under numerous other brands including *Jif*, *Crisco*, *Folgers*, *Pillsbury*, *Dunkin' Donuts*, *Dickinson's*, *Carnation*, *Borden*, *Eagle Brand*, *Bick's*, *Uncrustables*, *R.W. Knudsen*, *Hungry Jack*, *Martha White*, *Meow Mix* and *Milk-Bone*. Has about 6,910 employees. Smucker family owns 3.8% of stock. Off/dir. own 3.5%; The Vanguard Group 9.2% (7/16 Proxy). Chmn.: Richard Smucker. CEO: Mark Smucker. Inc.: Ohio. Address: One Strawberry Lane, Orville, OH 44667. Telephone: 330-682-3000. Internet: www.jmsmucker.com.

**After hitting its 2016 peak in late August, J.M. Smucker stock has since backtracked.** Indeed, the company's market capitalization is more than \$2 billion lower since the release of mixed fiscal first-quarter (ended July 31st) results. Although Smucker surpassed earnings expectations in the July term, the investment community was disappointed by a weak top-line showing. Net sales fell 7% during the period, hurt some by the divestiture of the U.S. canned milk business, but mostly by the underperformance of the recently acquired Big Heart Pet Brands business. The company's pet foods, particularly *Kibbles n Bits*, *Meow Mix*, and *9Lives*, were hurt by aggressive promotional activity in the category by industry leaders Nestle and Mars. More significant, we think this trend may continue over the balance of fiscal 2016. The weak showing from pet foods, along with price reductions for the *Folgers* coffee line (there is a lag time before the price cuts result in higher volume), offset a solid showing from the Consumer Foods unit, which benefited from lower input (i.e., ingredient) costs. **We still like the company's long-term story.** Ironically, the pet foods business, which was expanded recently for its high-growth potential, was the main problem in the first quarter. And while we expect it to remain a drag on operating profits over the next few quarters, we still think it will contribute nicely over the next three to five years. It has higher-growth potential than some of Smucker's traditional food lines (i.e., *Jif* peanut butter, *Smucker* fruit spreads, *Crisco* cooking oil and *Pillsbury* baking). Too, Smucker's *Folgers* and *Dunkin' Donuts* (retail distribution) should produce solid results to 2019-2021. **Smucker maintains a healthy balance sheet.** Even after completing some sizable acquisitions last decade (Multifoods and Folgers), the debt-to-total capital ratio is very manageable, which gives SJM the flexibility to pursue any attractive opportunities that may arise. **We think the recent pullback in Smucker stock's price may provide an excellent entry point for conservative, income-oriented investors who don't already have a position in this high-quality stock.**

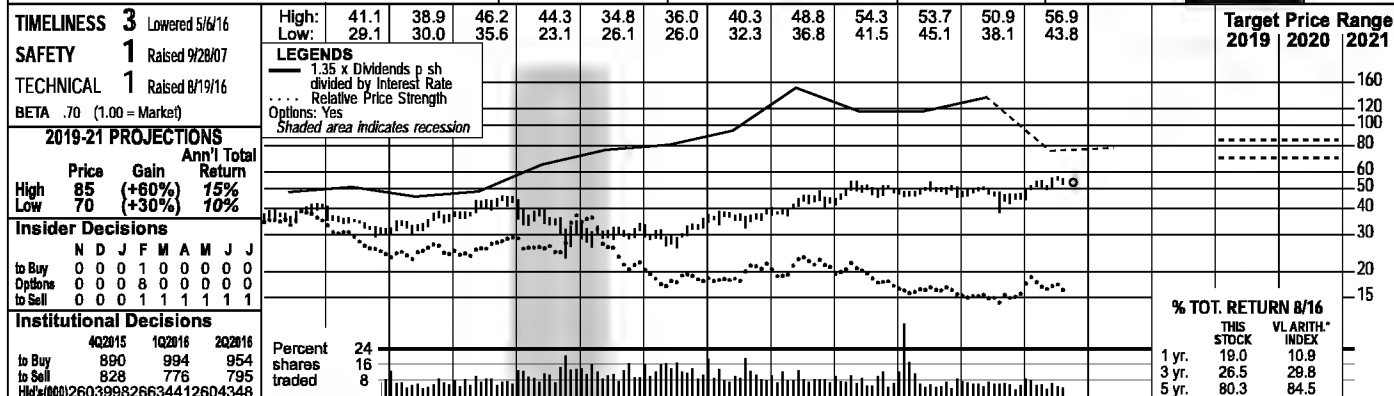
*William G. Ferguson* October 21, 2016

Company's Financial Strength	A++
Stock's Price Stability	95
Price Growth Persistence	90
Earnings Predictability	95

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**VERIZON NYSE-VZ** RECENT PRICE **53.51** P/E RATIO **13.5** (Trailing: 13.6 Median: 14.0) RELATIVE P/E RATIO **0.72** DIV'D YLD **4.3%** VALUE LINE



2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	© VALUE LINE PUB. LLC	19-21
23.93	24.73	24.63	24.46	25.73	25.59	30.29	32.56	34.27	38.02	37.68	39.10	40.53	29.11	30.58	32.31	31.30	32.15	Revenues per sh	34.80
7.53	8.11	7.93	7.55	7.64	7.24	7.07	7.40	7.65	8.12	8.01	7.96	7.85	6.79	7.19	7.94	5.80	5.70	"Cash Flow" per sh	6.15
2.92	3.00	3.05	2.62	2.59	2.56	2.54	2.34	2.54	2.40	2.21	2.15	2.32	4.00	3.35	3.99	3.95	4.05	Earnings per sh (A)	4.50
1.54	1.54	1.54	1.54	1.54	1.62	1.62	1.65	1.78	1.87	1.93	1.96	2.02	2.08	2.16	2.23	2.29	2.35	Div'ds Decl'd per sh (B)	2.44
6.52	6.39	4.36	4.29	4.79	5.24	5.88	6.11	6.07	6.01	5.82	5.73	5.66	4.01	4.14	4.36	4.20	4.25	Cap'l Spending per sh	4.45
12.79	11.98	11.88	12.08	13.56	13.56	16.68	17.62	14.68	14.67	13.64	12.69	11.60	9.38	2.96	4.03	4.00	4.25	Book Value per sh	7.50
2703.6	2717.2	2745.8	2769.4	2770.0	2926.8	2909.9	2871.0	2840.6	2835.7	2828.1	2835.5	2858.3	4141.1	4155.4	4073.2	4050.0	4000.0	Common Shs Outst'g (C)	3950.0
18.1	17.3	13.0	13.7	14.8	13.2	13.4	17.6	13.7	12.7	13.8	17.1	18.1	12.2	14.5	11.8	<i>Bold figures are Value Line estimates</i>		Avg Ann'l P/E Ratio	17.5
1.18	.89	.71	.78	.78	.70	.72	.93	.82	.85	.88	1.07	1.15	.69	.76	.59			Relative P/E Ratio	1.10
2.9%	3.0%	3.9%	4.3%	4.0%	4.8%	4.8%	4.0%	5.1%	6.1%	6.3%	5.3%	4.8%	4.3%	4.4%	4.7%			Avg Ann'l Div'd Yield	3.1%

**CAPITAL STRUCTURE as of 6/30/16**

Total Debt \$99725 mill. Due in 5 Yrs \$32097 mill.  
 LT Debt \$92922 mill. LT Interest \$1795 mill.  
 Incl. \$302.0 mill. capitalized leases.  
 (Total interest coverage: 7.1x)

(82% of Total Cap'l.)  
**Leases, Uncapitalized** Annual rentals \$2744 mill.  
**Pension Assets-12/15** \$16124 mill.  
 Oblig. \$22016 mill.

**Pfd Stock** None

**Common Stock** 4,076,301,833 shs.  
**MARKET CAP:** \$218 billion (Large Cap)

CURRENT POSITION	2014	2015	6/30/16
Cash Assets	10598	4470	2857
Other	19025	17810	17987
Current Assets	29623	22280	20844
Accts Payable	16680	19362	19090
Debt Due	2735	6489	6803
Other	8649	9201	8515
Current Liab.	28064	35052	34408

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '13-'15 to '19-'21
Revenues	2.0%	-3.5%	2.0%
"Cash Flow"	--	-1.5%	NMF
Earnings	4.0%	9.5%	3.0%
Dividends	3.0%	3.0%	2.0%
Book Value	-8.5%	-17.5%	5.5%

**BUSINESS:** Verizon Communications was created by the merger of Bell Atlantic and GTE in June of 2000. It is a diversified telecom company with a network that covers a population of about 298 million and provides service to nearly 98.2 million. Acquired MCI, 1/06; Alltel, 1/09; Verizon Wireless, 2/14. Also the largest provider of print and on-line directory information. Has a wireline presence in 28 states & Washington, D.C.; a wireless presence in 50 states & D.C.; operations in 19 countries. 2015 revenue breakdown: wireline (includes telecom & business), 29%; domestic wireless, 71%. Has approximately 177,700 employees. Chairman and CEO: Lowell McAdam, Inc.: Delaware. Addr.: 1095 Avenue of the Americas, NY, NY 10036. Tel.: 212-395-1000. Internet: www.verizon.com.

**Verizon's share net will likely remain stagnant for the next couple of years.** Indeed, the company posted June-quarter earnings of \$0.94 a share, four cents shy of our estimate and 10% below the year-earlier figure, on a 5.3% drop in revenues. And this came as no great surprise, as we had warned, in our June review, that the outlook for the next couple of years was none too impressive. This was due to the combined effects of the April 1st sale of the company's high-margined wireline operations in California, Florida, and Texas to Frontier Communications; the continued shift of wireless customers to device payment plans; and the ramping up of its new business model. Finally, a seven-week work stoppage in the Wireline division certainly did the company no favors, paring about \$0.07 off second-quarter share net. **The company has been active on the acquisition trail.** Verizon recently inked an agreement to acquire Yahoo!'s operating business for roughly \$4.8 billion in cash, thereby making Verizon a major competitor in mobile media. The addition of Yahoo! would create one of the largest portfolios of owned and partnered global brands with exclusive distribution capabilities. The transaction, which we expect will close in the first quarter of 2017, is subject to the typical closing conditions, approval of Yahoo! shareholders, and regulatory acceptance. **Verizon is in enviable financial shape.** The company finished the June interim with \$2.9 billion in cash on its ledger and long-term debt of \$92.9 billion, down from \$109.5 million this time last year. **The company's board of directors is certainly dedicated to boosting shareholder value.** In keeping with its impressive track record of increasing the annual dividend (see above array), the board recently upped the quarterly dividend by \$0.0125 a share, to \$0.5775, bringing the annual payout to \$2.31 a share. **Long-term investors may wish to consider Verizon stock.** Indeed, at the recent quotation, the issue's 3- to 5-year appreciation potential is above average. What's more, this blue chip equity could well be the darling of income-seeking investors, as its dividend yield is almost double that of the Value Line median.

*Kenneth A. Nugent September 16, 2016*

Cal-endar	QUARTERLY REVENUES (\$mill.)	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	
2013	29420 29786 30279 31065	120550
2014	30818 31483 31586 33192	127079
2015	31984 32224 33158 34254	131620
2016	32171 30532 31307 32790	128800
2017	31535 31500 31960 33505	128500

Cal-endar	EARNINGS PER SHARE A	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	
2013	.68 .78 .78 1.76	4.00
2014	.84 .91 .89 .71	3.35
2015	1.02 1.04 1.04 .89	3.99
2016	1.06 .94 1.03 .92	3.95
2017	1.06 1.02 1.04 .93	4.05

Cal-endar	QUARTERLY DIVIDENDS PAID B=C	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	
2012	.50 .50 .50 .515	2.02
2013	.515 .515 .515 .53	2.08
2014	.53 .53 .53 .55	2.16
2015	.55 .55 .565 .565	2.23
2016	.565 .565 .58	

(A) Based diluted shares. Excl. n/r gains (losses): '00, \$1.40; '01, (\$2.86); '02, (\$1.56); '03, (\$1.51); '04, \$0.08; '06, (\$0.42). Next earnings report October 20th. (B) Div'd paid in early Feb., May, Aug. & Nov. (C) Div'd reinv. plan avail. (D) In mill. (E) Incl. fin. sub. from '88. (F) '00 GTE pro forma. (F) '06 MCI pro forma.

**Company's Financial Strength** A++  
**Stock's Price Stability** 100  
**Price Growth Persistence** 45  
**Earnings Predictability** 65

WAL-MART STORES NYSE:WMT																	RECENT PRICE	P/E RATIO	Trailing: 15.3 Median: 15.0	RELATIVE P/E RATIO	DIV'D YLD	2.9%	VALUE LINE
TIMELINESS	2	Raised 8/26/16	High: 54.6	52.2	51.4	63.8	57.5	56.3	60.0	77.6	81.4	88.1	91.0	75.2			Target Price	2019	2020	2021			
SAFETY	1	Raised 2/15/02	Low: 42.3	42.3	42.1	43.1	46.3	47.8	48.3	57.2	67.7	72.3	56.3	60.2									
TECHNICAL	2	Raised 10/21/16	<b>LEGENDS</b> --- 10.0 x "Cash Flow" p sh ... Relative Price Strength Options: Yes Shaded area indicates recession																				
BETA	.65	(1.00 = Market)	<b>2019-21 PROJECTIONS</b> Price Gain Ann'l Total High 95 (+40%) 11% Low 80 (+15%) 7%																				
<b>Insider Decisions</b> D J F M A M J J A to Buy 1 0 0 0 0 0 0 0 Options 0 15 1 10 5 0 12 6 to Sell 0 0 0 1 0 0 0 1			<b>Institutional Decisions</b> 4Q2015 1Q2016 2Q2016 to Buy 649 682 655 to Sell 726 644 689 Hld's(000) 956404 973646 920655														Percent 12 shares 8 traded 4			<b>% TOT. RETURN 9/16</b> THIS STOCK VL ARITH. INDEX 1 yr. 14.6 17.7 3 yr. 5.6 23.7 5 yr. 58.0 108.1			
2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	© VALUE LINE PUB. LLC		19-21			
42.80	49.36	56.09	60.00	68.02	75.79	84.40	95.34	103.34	107.82	119.98	130.76	141.57	147.32	150.45	152.48	157.10	166.65	Sales per sh <sup>A</sup>	195.00				
2.05	2.25	2.61	2.95	3.47	3.78	4.27	4.83	5.16	5.64	6.42	6.92	7.69	7.92	7.93	7.64	7.60	7.85	"Cash Flow" per sh	9.10				
1.40	1.50	1.81	2.03	2.41	2.63	2.92	3.16	3.42	3.66	4.07	4.45	5.02	5.11	5.07	4.57	4.35	4.50	Earnings per sh <sup>A B</sup>	5.50				
.24	.28	.30	.36	.52	.60	.67	.88	.95	1.09	1.21	1.46	1.59	1.88	1.92	1.96	2.00	2.04	Div'de Decl'd per sh <sup>C</sup>	2.25				
7.01	7.88	8.95	10.12	11.67	12.77	14.91	16.26	16.63	18.69	19.49	20.86	23.04	23.59	25.22	25.47	26.70	27.90	Book Value per sh	30.00				
4470.0	4453.0	4395.0	4311.0	4234.0	4165.0	4131.0	3973.0	3925.0	3786.0	3516.0	3418.0	3314.0	3233.0	3228.0	3162.0	3100.0	3000.0	Common Shs Outst'g <sup>D</sup>	2900.0				
38.0	34.9	30.3	26.9	22.8	18.3	16.0	14.9	16.2	13.9	13.1	12.4	13.5	14.9	15.4	15.5	15.5	15.5	Avg Ann'l P/E Ratio	16.0				
2.47	1.79	1.66	1.53	1.20	.97	.86	.79	.97	.93	.83	.78	.86	.84	.81	.78	.81	.78	Relative P/E Ratio	1.00				
.5%	.5%	.5%	.7%	.9%	1.2%	1.4%	1.9%	1.7%	2.1%	2.3%	2.7%	2.3%	2.5%	2.5%	2.8%	2.8%	2.8%	Avg Ann'l Div'd Yield	2.6%				
<b>CAPITAL STRUCTURE as of 7/31/16</b> Total Debt \$47491 mill. Due in 5 Yrs \$17881 mill. LT Debt \$42743 mill. LT Interest \$2300 mill. Incl. \$6070 mill. capitalized leases. (Total interest coverage: 10.0x) (54% of Cap'l)			348650	378799	405607	408214	421849	446950	469162	476294	485551	482130	487000	500000	Sales (\$mill) <sup>A</sup>	565500							
<b>Leases, Uncapitalized Annual rentals \$2057 mill.</b>			24.2%	24.4%	24.5%	25.4%	25.3%	25.0%	24.9%	24.8%	24.8%	25.1%	25.0%	25.0%	Gross Margin	25.0%							
<b>No Defined Benefit Pension Plan Pfd Stock None</b>			7.4%	7.5%	7.3%	7.6%	7.9%	7.7%	7.7%	7.6%	7.0%	6.7%	7.0%	Operating Margin	7.0%								
<b>Common Stock 3,093,257,531 shs. as of 8/29/16</b>			6779	7262	7720	8416	8970	10130	10773	10942	11453	11528	11725	12050	Number of Stores	12750							
<b>MARKET CAP: \$213 billion (Large Cap)</b>			12178	12884	13512	14204	14921	15523	16999	16728	16426	14694	13700	13500	Net Profit (\$mill)	15950							
<b>CURRENT POSITION 2014 2015 7/31/16 (\$MILL.)</b>			33.6%	34.2%	34.2%	34.1%	34.0%	33.4%	31.0%	32.2%	31.9%	30.3%	33.0%	33.0%	Income Tax Rate	33.0%							
<b>Cash Assets</b>			9135	8705	7676	6166	d10869	d6441	d7230	d6591	d7325	d11878	d8160	d1994	d4380	d8500	d5800	Working Cap'l (\$mill)	5300				
<b>Receivables</b>			6778	5624	5275	30735	33402	34549	36401	43842	47079	41417	44559	43692	44030	43500	45200	Long-Term Debt (\$mill)	48000				
<b>Inventory (LIFO)</b>			45141	44469	43453	61573	64608	65285	70749	68542	71315	76343	76255	81394	80546	82770	83700	Shr. Equity (\$mill)	87000				
<b>Other</b>			2224	1441	1828	14.1%	14.1%	14.5%	14.1%	14.1%	14.0%	15.3%	14.7%	14.0%	12.6%	11.0%	10.5%	Return on Total Cap'l	12.0%				
<b>Current Assets</b>			63278	60239	58232	19.8%	19.9%	20.7%	20.1%	21.8%	21.8%	22.3%	21.9%	20.2%	18.2%	16.5%	16.0%	Return on Shr. Equity	18.5%				
<b>Accts Payable</b>			38410	38487	39902	15.2%	14.4%	15.0%	14.1%	15.3%	14.7%	15.2%	13.9%	12.6%	10.4%	9.0%	9.0%	Retained to Com Eq	11.0%				
<b>Debt Due</b>			6402	6004	4748	23%	28%	28%	30%	30%	33%	32%	37%	38%	43%	46%	45%	All Div'ds to Net Prof	41%				
<b>Other</b>			20460	20128	23472	<b>BUSINESS:</b> Wal-Mart Stores, Inc. owns the world's largest retail chain, operating 3,465 supercenters (includes grocery departments), 442 discount stores, 655 Sam's Clubs, and 667 Neighborhood Markets in the U.S., plus 6,299 foreign stores, many in Latin America, with the rest in Asia, Canada, and the U.K. as of 1/31/16. Total store space: 1.149 billion square feet. Retail space is largely owned, and most stores are within 400 miles of a distribution center. Groceries accounted for 56% of U.S. sales; sales per square foot in 2015: about \$420. Has 2,300,000 employees. Off/dir. own 51.6% of shares (4/16 proxy). Chairman: S. Robson Walton. CEO and Pres.: Doug McMillon, Inc. DE. Addr.: 702 S.W. 8th St., Bentonville, AR 72716. Tel.: 479-273-4000. Internet: www.walmart.com.																	
<b>Current Liab.</b>			65272	64619	68122	<b>Wal-Mart is making deals.</b> The company plans on buying e-tailer Jet.com for \$3 billion in cash and \$300 million in stock (pending regulatory approval). If successful, this would be the largest e-commerce acquisition in U.S. history. Jet.com has proven popular with value-conscious urban millennials, thanks largely to its innovative Smart Cart technology. This functionality entices shoppers with lower unit prices when more of the same item are added to the shopping cart. With Wal-Mart also being a favorite of young adult shoppers, the customer bases should prove complementary. Elsewhere, the company announced an increased stake in JD.com from 5.9% to 10.8%. That business is China's answer to Amazon. JD.com should help WMT gain customers in that region (the world's largest market for e-commerce), as Wal-Mart's goods are expected to be sold through the Chinese website. The deals make sense since WMT can learn from these young companies and increase its share of digital spending. <b>The company hosted its annual meeting with investment analysts.</b> The main takeaway was that digital platform is becoming increasingly important to Wal-Mart's long-term investment case. In fact, there should be around 25% fewer U.S. store openings next year as focus shifts away from physical footprint expansion. Items sold online have more than doubled in the past six months, and the online offering is expanding at around a million products a month. The company aims to achieve online sales growth of 20%-30% per quarter, a far cry from the 12% achieved in the most recent period. Focus on creating new ways to make the customer shopping experience faster and easier should help augment increased sales from the aforementioned new businesses. Nonetheless, building out Web properties and capabilities ought to result in modestly higher earnings in fiscal 2017, before 5%-10% growth can be achieved in fiscal 2018. <b>These shares are favorably ranked.</b> Conservative investors may find Wal-Mart's solid dividend yield and dependable business model appealing. However, near-term sales catalysts appear limited, and investors will have to be patient in order to capitalize on earnings improvement.																	
<b>ANNUAL RATES</b>			Past 10 Yrs.	Past 5 Yrs.	Est'd '13-'15	<b>Kevin Downing</b>																	
<b>of change (per sh)</b>			10 Yrs.	5 Yrs.	'19-'21	<b>October 28, 2016</b>																	
<b>Sales</b>			8.0%	6.5%	4.5%	<b>Company's Financial Strength</b> A++																	
<b>"Cash Flow"</b>			8.5%	6.5%	2.5%	<b>Stock's Price Stability</b> 95																	
<b>Earnings</b>			7.5%	6.0%	2.0%	<b>Price Growth Persistence</b> 30																	
<b>Dividends</b>			14.5%	12.0%	2.5%	<b>Earnings Predictability</b> 95																	
<b>Book Value</b>			8.0%	6.5%	3.5%	<b>To subscribe call 1-800-VALUELINE</b>																	
<b>Fiscal Year Begins</b>			Apr.30	Jul.31	Oct.31	Jan.31	Full Fiscal Year																
<b>2013</b>			114071	116829	115688	129706	476294																
<b>2014</b>			114960	120125	119001	131565	485651																
<b>2015</b>			114826	120229	117408	129667	482130																
<b>2016</b>			115904	120900	118500	131696	487700																
<b>2017</b>			119000	125000	122000	134000	500000																
<b>Fiscal Year Begins</b>			Apr.30	Jul.31	Oct.31	Jan.31	Full Fiscal Year																
<b>2013</b>			1.14	1.24	1.14	1.59	5.11																
<b>2014</b>			1.10	1.21	1.15	1.61	5.07																
<b>2015</b>			1.03	1.08	1.03	1.43	4.57																
<b>2016</b>			.98	1.07	.95	1.35	4.35																
<b>2017</b>			1.01	1.05	1.00	1.44	4.50																
<b>Calendar</b>			Mar.31	Jun.30	Sep.30	Dec.31	Full Year																
<b>2012</b>			.365	.795	.3975	.3975	1.96																
<b>2013</b>			.47	.47	.47	.47	1.88																
<b>2014</b>			.48	.48	.48	.48	1.92																
<b>2015</b>			.49	.49	.49	.49	1.96																
<b>2016</b>			.50	.50	.50																		
<b>(A) Fiscal year ends Jan. 31st of following calendar year. Sales exclude rentals from licensed depts. (B) Based on diluted shares. May not sum due to rounding. Excls. n/r</b>			<b>(losses)/gains: '01, (\$0.01); '05, \$0.03; '08, (\$0.07); '09, \$0.04; '10, \$0.40; '11, \$0.03; '13, (\$0.23); '15 (\$0.08). Next earnings report due November 17th. (C) Divs. historically paid in early Mar., May, Aug., and Dec. Dividend reinvestment plan available. (D) In millions.</b>																				

(A) Fiscal year ends Jan. 31st of following calendar year. Sales exclude rentals from licensed depts. (B) Based on diluted shares. May not sum due to rounding. Excls. n/r (losses)/gains: '01, (\$0.01); '05, \$0.03; '08, (\$0.07); '09, \$0.04; '10, \$0.40; '11, \$0.03; '13, (\$0.23); '15 (\$0.08). Next earnings report due November 17th. (C) Divs. historically paid in early Mar., May, Aug., and Dec. Dividend reinvestment plan available. (D) In millions.

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<b>EPS Revisions</b>		Current Qtr.	Next Qtr.	Current Year	Next Year
Up Last 7 Days		1	N/A	N/A	N/A
Up Last 30 Days		3	1	2	1
Down Last 30 Days		N/A	N/A	N/A	2
Down Last 90 Days		N/A	N/A	N/A	N/A

Growth Estimates	CHD	Industry	Sector	S&P 500
Current Qtr.	4.40%	-0.13		
Next Qtr.	7.30%	0.09		
Current Year	4.70%	0.11		
Next Year	7.90%	0.14		
Next 5 Years (per annum)	9.78%	0.13		
Past 5 Years (per annum)	9.81%	N/A		

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Stifel: Hold U.S. Markets open 10/27/2016

↓ Downgrade BofA/Merrill: Neutral to Underperform 4/18/2016

↓ Downgrade Goldman: Neutral to Sell 1/13/2016

Societe Generale: Hold 10/13/2015

↓ Downgrade UBS: Neutral to Sell 9/11/2015

Sterne Agee CRT: Neutral 7/21/2015

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<b>EPS Revisions</b>	Current Qtr.	Next Qtr.	Current Year	Next Year
Up Last 7 Days	1	1	1	N/A
Up Last 30 Days	3	1	3	1
Down Last 30 Days	1	1	1	1
Down Last 90 Days	N/A	N/A	N/A	N/A

Growth Estimates	KQ	Industry	Sector	S&P 500
Current Qtr.	-5.90%	1.05		
Next Qtr.	N/A	2.40		
Current Year	-4.50%	-0.85		
Next Year	5.20%	0.12		
Next 5 Years (per annum)	2.59%	0.14		
Past 5 Years (per annum)	-0.13%	N/A		

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	Credit Suisse: U.S. Bonds open to Trns.
Upgrade	Societe Generale: Sell to Hold 2/10/2016
Upgrade	Stifel: Hold to Buy 1/12/2016
	Sterne Agee CRT: Buy 7/21/2015
Upgrade	UBS: Neutral to Buy 7/14/2015
Downgrade	UBS: Buy to Neutral 7/14/2015

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60 Days Ago		0.66	0.67	2.41	2.62	Upgrade	RBC Capital Mkts: Sector Perform to Outperform
90 Days Ago		0.66	0.67	2.41	2.63	Upgrade	BofA/Merrill: Neutral to Buy
<b>EPS Revisions</b>		Current Qtr	Next Qtr	Current Year	Next Year	Upgrade	Morgan Stanley: Equal-Weight to Overweight
Up Last 7 Days		1	1	3	3	Upgrade	BofA/Merrill: Underperform to Neutral
Up Last 30 Days		3	3	10	7	Upgrade	JP Morgan: Neutral to Overweight
Down Last 30 Days		2	2	1	1		
Down Last 90 Days		N/A	N/A	N/A	N/A		RBC Capital Mkts: Sector Perform

Growth Estimates	CAG	Industry	Sector	S&P 500
Current Qtr.	12.10%	0.62		
Next Qtr.	15.80%	N/A		
Current Year	19.20%	0.05		
Next Year	7.70%	0.12		
Next 5 Years (per annum)	10.33%	0.14		
Past 5 Years (per annum)	7.31%	N/A		

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EPS Revisions		Current Qtr.	Next Qtr.	Current Year	Next Year
Up Last 7 Days		1	1	1	1
Up Last 30 Days		5	6	7	4
Down Last 30 Days		N/A	N/A	1	N/A
Down Last 90 Days		N/A	N/A	N/A	N/A

Growth Estimates	COST	Industry	Sector	S&P 500
Current Qtr.	11.00%	0.36		
Next Qtr.	10.50%	0.62		
Current Year	11.40%	0.06		
Next Year	10.60%	0.16		
Next 5 Years (per annum)	10.21%	0.13		
Past 5 Years (per annum)	8.88%	N/A		

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Upgrade Northcoast: Neutral to Buy 10/18/2016

Wells Fargo: Market Perform 10/18/2016

Upgrade Goldman: Neutral to Buy 6/1/2016

RBC Capital Mkts: Outperform 5/3/2016

Citigroup: Neutral 11/9/2015

Downgrade Northcoast: Buy to Neutral 11/3/2015

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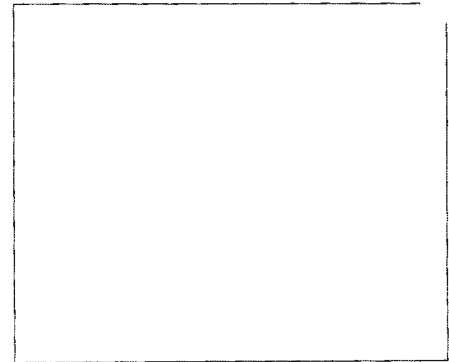
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60 Days Ago		0.88	0.74	3.11	3.45	↓ Downgrade	Goldman: Neutral to Sell 5/24/2016
90 Days Ago		0.88	0.74	3.11	3.45		
<b>EPS Revisions</b>		Current Qtr.	Next Qtr.	Current Year	Next Year		Susquehanna: Neutral 10/27/2015
Up Last 7 Days		N/A	N/A	N/A	N/A	↑ Upgrade	Morgan Stanley: Underweight to Equal-Weight 9/2/2015
Up Last 30 Days		1	1	1	1	↑ Upgrade	RBC Capital Mkts: Sector Perform to Outperform 7/21/2015
Down Last 30 Days		N/A	N/A	N/A	N/A	↑ Upgrade	Goldman: Sell to Neutral 4/20/2015
Down Last 90 Days		N/A	N/A	N/A	N/A		

Growth Estimates	GIS	Industry	Sector	S&P 500
Current Qtr.	6.10%	0.62		
Next Qtr.	12.30%	N/A		
Current Year	6.20%	0.05		
Next Year	10.30%	0.12		
Next 5 Years (per annum)	6.95%	0.14		
Past 5 Years (per annum)	3.02%	N/A		

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90 Days Ago		0.91	0.9	3.69	3.96
EPS Revisions	Current Qtr	Next Qtr	Current Year	Next Year	
Up Last 7 Days	N/A	N/A	N/A	N/A	
Up Last 30 Days	N/A	N/A	N/A	N/A	
Down Last 30 Days	2	2	2	3	
Down Last 90 Days	N/A	N/A	N/A	N/A	

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↑ Upgrade	Goldman: Sell to Neutral 3/16/2016
↑ Upgrade	Credit Agricole: Underperform to Outperform 1/8/2016
↑ Upgrade	Credit Suisse: Neutral to Outperform 11/23/2015
↑ Upgrade	Credit Suisse: Underperform to Neutral 11/4/2015
	Susquehanna: Neutral 10/27/2015
	Buckingham Research: Buy 10/19/2015

Growth Estimates	K	Industry	Sector	S&P 500
Current Qtr.	2.40%	0.62		
Next Qtr	11.40%	N/A		
Current Year	2.80%	0.05		
Next Year	10.20%	0.12		
Next 5 Years (per annum)	7.13%	0.14		
Past 5 Years (per annum)	2.48%	N/A		

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60 Days Ago		1.49	1.61	6.08	6.52
90 Days Ago		1.49	1.61	6.08	6.52

EPS Revisions	Current Qtr	Next Qtr	Current Year	Next Year
Up Last 7 Days	N/A	N/A	N/A	N/A
Up Last 30 Days	N/A	N/A	N/A	N/A
Down Last 30 Days	9	5	9	10
Down Last 90 Days	N/A	N/A	N/A	N/A

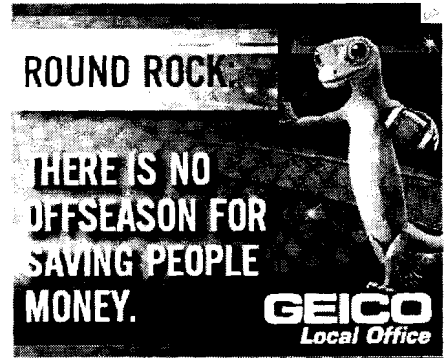
Growth Estimates	KMB	Industry	Sector	S&P 500
Current Qtr.	0.70%	0.57		
Next Qtr.	4.60%	4.00		
Current Year	4.50%	0.08		
Next Year	6.50%	0.12		
Next 5 Years (per annum)	7.20%	0.28		
Past 5 Years (per annum)	4.06%	N/A		

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- ↓ Downgrade Deutsche Bank: Buy to Hold  
U.S. Markets Close in 6:42:20 mins
- ↑ Upgrade Societe Generale: Hold to Buy 10/23/2015
- ↑ Upgrade Deutsche Bank: Hold to Buy 9/15/2015
- Sterne Agee CRT: Neutral 7/21/2015
- ↑ Upgrade Barclays: Equal Weight to Overweight 5/13/2015
- ↓ Downgrade BMO Capital Markets: Outperform to Market Perform 4/2/2015

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60 Days Ago		1.08	0.98	3.88	4.2
90 Days Ago		1.11	0.98	3.96	4.27

EPS Revisions	Current Qtr.	Next Qtr	Current Year	Next Year
Up Last 7 Days	2	1	6	1
Up Last 30 Days	2	1	7	3
Down Last 30 Days	4	4	1	2
Down Last 90 Days	N/A	N/A	N/A	N/A

**NEW**

My Screeners My Portfolio

Upgrade Argus: Hold to Buy Markets of 10/26/16

Upgrade B. Riley & Co.: Neutral to Buy 8/15/2016

Jefferies: Buy 6/15/2016

Upgrade Sterne Agee CRT: Neutral to Buy 2/18/2016

Upgrade Stifel: Hold to Buy 1/19/2016

Upgrade Sun Trust Rbsn Humphrey: Neutral to Buy 9/8/2015

Growth Estimates	PG	Industry	Sector	S&P 500
Current Qtr.	3.80%	0.57		
Next Qtr	14.00%	4.00		
Current Year	6.00%	0.08		
Next Year	8.20%	0.12		
Next 5 Years (per annum)	8.60%	0.28		
Past 5 Years (per annum)	-0.97%	N/A		

More Upgrades & Downgrades

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Finance Home	Yahoo Originals	Personal Finance	Tech	Market Data	Industry News
30 Days Ago		1.88	2.00	7.7	8.18
60 Days Ago		1.95	2.08	7.7	8.21
90 Days Ago		2.1	2.1	7.7	8.22
EPS Revisions		Current Qtr.	Next Qtr.	Current Year	Next Year
Up Last 7 Days		1	N/A	N/A	N/A
Up Last 30 Days		2	N/A	N/A	N/A
Down Last 30 Days		N/A	1	2	2
Down Last 90 Days		N/A	N/A	N/A	N/A

Growth Estimates	SJM	Industry	Sector	S&P 500
Current Qtr.	19.10%	0.62		
Next Qtr.	27.80%	N/A		
Current Year	28.00%	0.05		
Next Year	6.30%	0.12		
Next 5 Years (per annum)	9.08%	0.14		
Past 5 Years (per annum)	5.31%	N/A		

**NEW** My Screeners My Portfolio

↓ Downgrade Credit Suisse: Outperform to Neutral  
U.S. Markets close in 69.25/70.16mins

↑ Upgrade Hilliard Lyons: Underperform to Neutral 9/22/2016

↓ Downgrade Jefferies: Buy to Hold 6/10/2016

KeyBanc Capital Mkts: Sector Weight 5/26/2016

↓ Downgrade Goldman: Neutral to Sell 4/4/2016

Susquehanna: Neutral 10/27/2015

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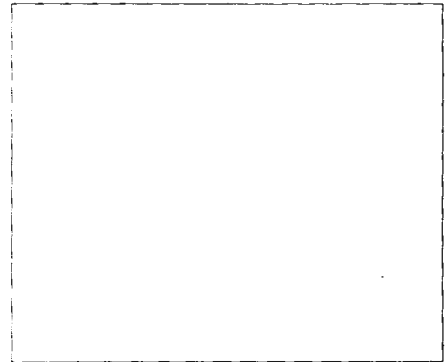
Finance Home	Yahoo Originals	Personal Finance	Tech	Market Data	Industry News
60 Days Ago	0.59	0.5	2.3	2.58	
90 Days Ago	0.59	0.5	2.3	2.57	
<b>EPS Revisions</b>	Current Qtr	Next Qtr.	Current Year	Next Year	
Up Last 7 Days	N/A	1	1	1	
Up Last 30 Days	2	3	2	2	
Down Last 30 Days	1	N/A	N/A	N/A	
Down Last 90 Days	N/A	N/A	N/A	N/A	

<sup>NEW</sup> My Screeners My Portfolio

U.S. Markets close in 6 hrs 30 mins  
 Barclays: Underweight 9/23/2016  
 BofA/Merrill: Neutral 6/20/2016  
 Argus: Hold to Buy 2/5/2016  
 Morgan Stanley: Equal-Weight to Underweight 2/2/2016  
 Wells Fargo: Outperform 11/19/2015  
 Pivotal Research Group: Sell 8/6/2015

Growth Estimates	SY	Industry	Sector	S&P 500
Current Qtr.	11.50%	0.46		
Next Qtr.	13.30%	1.08		
Current Year	10.50%	0.03		
Next Year	11.60%	0.16		
Next 5 Years (per annum)	10.03%	0.14		
Past 5 Years (per annum)	0.18%	N/A		

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60 Days Ago		0.91	1.04	3.89	4.03
90 Days Ago		0.91	1.04	3.9	4.04
<b>EPS Revisions</b>		Current Qtr	Next Qtr	Current Year	Next Year
Up Last 7 Days		3	2	9	4
Up Last 30 Days		7	3	15	9
Down Last 30 Days		8	3	4	7
Down Last 90 Days		N/A	N/A	N/A	N/A

Growth Estimates	VZ	Industry	Sector	S&P 500
Current Qtr.	1.10%	-0.19		
Next Qtr.	-3.80%	-0.06		
Current Year	-2.50%	-0.72		
Next Year	3.10%	0.44		
Next 5 Years (per annum)	1.68%	0.12		
Past 5 Years (per annum)	15.35%	N/A		

**NEW** My Screeners My Portfolio

↑ Upgrade Drexel Hamilton: Hold to Buy  
U.S. Markets close in 60 mins

↓ Downgrade Hilliard Lyons: Buy to Neutral 7/27/2016

↓ Downgrade Oppenheimer: Outperform to Perform 7/20/2016

↓ Downgrade Bemstein: Outperform to Mkt Perform 4/7/2016

↓ Downgrade Jefferies: Buy to Hold 4/7/2016

Macquarie: Neutral 4/5/2016

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30 Day Range		0.88	1.00	4.27	4.40
60 Days Ago		0.96	1.33	4.33	4.48
90 Days Ago		0.93	1.35	4.26	4.41
EPS Revisions		Current Qtr	Next Qtr	Current Year	Next Year
Up Last 7 Days		N/A	N/A	N/A	N/A
Up Last 30 Days		2	3	4	2
Down Last 30 Days		N/A	N/A	N/A	N/A
Down Last 90 Days		N/A	N/A	N/A	N/A

**NEW** My Screeners My Portfolio

U.S. Markets close in 6 hrs 29 mins

Piper Jaffray: Neutral 10/21/2016

Guggenheim: Buy 9/30/2016

KeyBanc Capital Mkts. Overweight 9/30/2016

Upgrade Barclays: Equal Weight to Overweight 9/23/2016

Upgrade Cowen: Market Perform to Outperform 9/12/2016

Downgrade Northcoast: Buy to Neutral 7/12/2016

Growth Estimates	WMT	Industry	Sector	S&P 500
Current Qtr.	-3.00%	0.46		
Next Qtr.	-10.70%	1.08		
Current Year	-5.40%	0.03		
Next Year	0.50%	0.16		
Next 5 Years (per annum)	1.81%	0.14		
Past 5 Years (per annum)	-0.91%	N/A		

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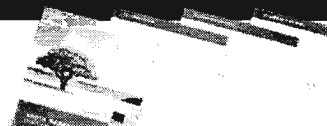
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- Real Time Quotes
- News

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- \* Analyst Report
- \* Style Scores
- \* Detailed Estimates
- Comparison to Industry

#### MORE RESEARCH

- Full Company Report
- Broker Digest Report
- Earnings Announcements
- Broker Reports
- Insiders
- Broker Recommendations
- Earnings Transcripts

#### CHARTS

- Comparative
- Interactive Charts
- \* Price and Consensus
- Price, Consensus and EPS Surprise
- Price & EPS Surprise
- 12 Month EPS
- Broker Recommendations
- Fundamental Charts

#### FINANCIALS

- Financial Overview
- Income Statements
- Balance Sheet
- Cash flow Statements

#### OPTIONS

- Option Chain
- Options Greek Montage

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### Church & Dwight: (CHD)

(Real Time Quote From BATS)

\$47.95 USD

-0.16 (-0.33%)

Updated Oct 26, 2016 09:54 AM ET

Volume: 12.801

Open: \$48.01

Prior Close: \$48.11

Zacks Rank [?]:

Style Scores [?]:

Add to portfolio

Trades from \$3

3-Hold    3

Value: D | Growth: B | Momentum: B | VGM:

[View All Zacks Rank #1 Strong Buys](#)

#### Quote Overview

Enter Symbol

##### Stock Activity

Open	48.01
Day Low	47.99
Day High	48.11
52 Wk Low	38.43
52 Wk High	53.68
Avg. Volume	1,735,362
Market Cap	12.39 B
Dividend	0.71 ( 1.48%)
Beta	0.37
Industry	SOAP&CLNG PREPS

##### Key Earnings Data

Forward PE	27.18
PEG Ratio	2.83
Current Qtr Est	0.47
Current Yr Est	1.77
Most Accurate Est	0.47
Qtr Earnings ESP[?]	0.00%
Exp Earnings Date	*BMO11/3/16
Prior Year EPS	1.63
Exp EPS Growth (3-5yr)	9.59%

\*BMO = Before Market Open \*AMC = After Market Close

#### Research Report For CHD

[All Zacks' Analyst Reports »](#)

#### Zacks News For CHD

Procter & Gamble (PG) Q1 Earnings & Sales Top. View Intact  
10/25/16-9:05AM EST Zacks

Cosmetic Stocks' Earnings Slated on Aug 4: NUS, RDEN, CHD  
08/03/16-5:43AM EST Zacks

The U.S. Expansion Carries On  
06/16/16-4:17PM EST Zacks

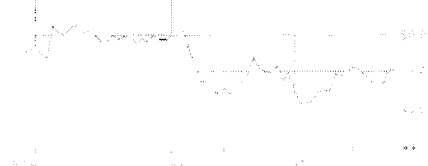
June Market Strategy: U.S. Expansion Carries On  
06/06/16-2:11PM EST Zacks

Does the Fed Raise Rates This Summer?  
06/03/16-9:06AM EST Zacks

[More Zacks News for CHD »](#)

#### Chart for CHD

Charts for CHD



October 26, 2016 © quote.motleyfool.com

[Interactive Chart | Fundamental Charts](#)

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#### Other News For CHD

3 Attractive Income Stocks Whose Dividends...  
10/13/16-7:15AM EST TheMotleyFool

6 Stocks With Growing Yield and Strong Returns  
10/10/16-3:47AM EST GuruFocus

Church & Dwight - Did This Consumer Cash Flow...  
09/28/16-11:01AM EST Seeking Alpha

Ignore Procter & Gamble: Here Are 3 Better Stocks  
09/25/16-6:15AM EST TheMotleyFool

Church & Dwight to Report Third Quarter 2016...

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- Method for Trading
- Options Trader
- Reitmeister Trader
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- Short List
- Stocks Under \$10
- Surprise Trader
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- Real Time Quotes
- News

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- \* Analyst Report
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- \* Detailed Estimates
- Comparison to Industry

#### MORE RESEARCH

- Full Company Report
- Broker Digest Report
- Earnings Announcements
- Broker Reports
- Insiders
- Broker Recommendations
- Earnings Transcripts

#### CHARTS

- Comparative
- Interactive Charts
- \* Price and Consensus
- Price, Consensus and EPS Surprise
- Price & EPS Surprise
- 12 Month EPS
- Broker Recommendations
- Fundamental Charts

#### FINANCIALS

- Financial Overview
- Income Statements
- Balance Sheet
- Cash flow Statements

#### OPTIONS

- Option Chain
- Options Greek Montage

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### Coca Cola Co: (KO)

(Real Time Quote From BATS)

\$42.84 USD

+0.30 (0.71%)

Updated Oct 26, 2016 09:54 AM ET

Volume: 1,928,883 Zacks Rank [?]:

Open: \$43.00 Style Scores [?]:

Prior Close: \$42.54

Add to portfolio Trades from \$3

3-Hold

Value: D | Growth: D | Momentum: B | VGM

View All Zacks Rank #1 Strong Buys

#### Quote Overview

Enter Symbol

##### Stock Activity

Open 43.00  
 Day Low 42.41  
 Day High 43.03  
 52 Wk Low 40.75  
 52 Wk High 47.13  
 Avg. Volume 12,463,076  
 Market Cap 183.60 B  
 Dividend 1.40 (3.29%)  
 Beta 0.59  
 Industry BEVERAGES-SOFT

##### Key Earnings Data

Forward PE 22.33  
 PEG Ratio 3.75  
 Current Qtr Est 0.48  
 Current Yr Est 1.91  
 Most Accurate Est 0.49  
 Qtr Earnings ESP<sup>[1]</sup> 2.08%  
 Exp Earnings Date <sup>\*BMO</sup>10/26/16  
 Prior Year EPS 2.00  
 Exp EPS Growth (3-5yr) 5.95%

\*BMO = Before Market Open \*AMC = After Market Close

#### Research Reports For KO

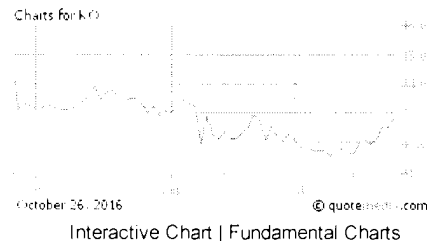
All Zacks' Analyst Reports »

#### Zacks News For KO

- Q3 Earnings, Earnings, Earnings! BA, HLT, KO, MDLZ, AAPL  
10/26/16-9:08AM EST Zacks
- Coca-Cola (KO) Beats on Earnings & Revenues in Q3  
10/26/16-7:22AM EST Zacks
- These Companies are Earnings All-Stars  
10/25/16-4:21PM EST Zacks
- B&G Foods (BGS) to Report Q3 Earnings: What's in Store?  
10/25/16-7:47AM EST Zacks
- Can Mondelez (MDLZ) Pull a Surprise This Earnings Season?  
10/24/16-3:51PM EST Zacks

More Zacks News for KO »

#### Chart for KO



Interactive Chart | Fundamental Charts



#### Other News For KO

- Stocks Poised For Early Weakness Following...  
10/26/16-8:59AM EST Alliance News
- Coca-Cola Third Quarter Profit Down, But Results...  
10/26/16-7:45AM EST Alliance News
- Coke profit falls 28 percent, but beats expectations  
10/26/16-6:58AM EST Associated Press, The
- The Coca-Cola Company Reports Third Quarter...  
10/26/16-6:51AM EST Business Wire
- Business events scheduled for Wednesday

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- Method for Trading
- Options Trader
- Reitmeister Trader
- Research Wizard
- Short List
- Stocks Under \$10
- Surprise Trader
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- Comparison to Industry

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- Full Company Report
- Broker Digest Report
- Earnings Announcements
- Broker Reports
- Insiders
- Broker Recommendations
- Earnings Transcripts

### CHARTS

- Comparative
- Interactive Charts
- \* Price and Consensus
- Price, Consensus and EPS Surprise
- Price & EPS Surprise
- 12 Month EPS
- Broker Recommendations
- Fundamental Charts

### FINANCIALS

- Financial Overview
- Income Statements
- Balance Sheet
- Cash flow Statements

### OPTIONS

- Option Chain
- Options Greek Montage

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### Conagra Foods: (CAG)

(Real Time Quote From BATS)

\$47.77 USD

-0.07 (-0.15%)

Updated Oct 26, 2016 09:56 AM ET

Volume: 45,441 Zacks Rank <sup>[?]</sup>:

Open: \$47.86 Style Scores <sup>[?]</sup>:

Prior Close: \$47.84

Add to portfolio  Trades from \$3

2-Buy  2

Value: C | Growth: B | Momentum: B | VGM:  B

[View All Zacks Rank #1 Strong Buys](#)

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Enter Symbol

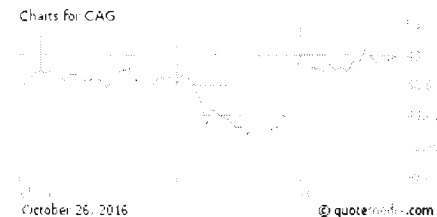
#### Stock Activity

Open	47.86
Day Low	47.70
Day High	48.01
52 Wk Low	37.97
52 Wk High	48.81
Avg. Volume	3,461,063
Market Cap	20.94 B
Dividend	1.00 (2.09%)
Beta	0.34
Industry	FOOD-MISC/DIVERSIFIED

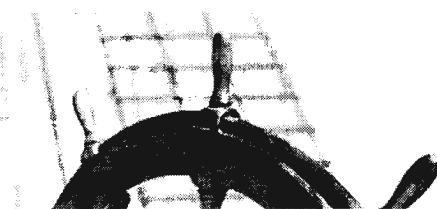
#### Key Earnings Data

Forward PE	19.30
PEG Ratio	2.19
Current Qtr Est	0.65
Current Yr Est	2.48
Most Accurate Est	0.64
Qtr Earnings ESP <sup>[?]</sup>	-1.54%
Exp Earnings Date	12/27/16
Prior Year EPS	2.08
Exp EPS Growth (3-5yr)	8.82%

### Chart for CAG



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### Research Reports For CAG

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### Zacks News For CAG

- 5 Top ROE Picks as Q3 Earnings Bells Chime  
10/26/16-7:05AM EST Zacks
- Consumer Staples Stocks' Earnings on Oct 25: PG and CSV  
10/24/16-8:48AM EST Zacks
- SUPERVALU (SVU) Q2 Earnings In Line, Sales Miss Estimates  
10/20/16-9:45AM EST Zacks
- How Will SUPERVALU (SVU) Gain from Selling Save-A-Lot?  
10/19/16-3:03PM EST Zacks
- General Mills (GIS) Unit Launches Healthy Vegetable Soups  
10/18/16-8:36AM EST Zacks

[More Zacks News for CAG »](#)

### Other News For CAG

- Stocks Going Ex-Dividend The Fourth Week Of...  
10/20/16-12:00PM EST Seeking Alpha
- Q4 2016 Sector Ratings For ETFs And Mutual...  
10/19/16-9:30AM EST Seeking Alpha
- ConAgra Foods in the spotlight  
10/18/16-10:01AM EST Seeking Alpha
- Piper Jaffray Upgrades Under Armour to...  
10/17/16-10:15AM EST Market Realist
- RBC Capital Upgrades ConAgra Foods to...

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- Method for Trading
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- \* Style Scores
- \* Detailed Estimates
- Comparison to Industry

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- Broker Digest Report
- Earnings Announcements
- Broker Reports
- Insiders
- Broker Recommendations
- Earnings Transcripts

#### CHARTS

- Comparative
- Interactive Charts
- \* Price and Consensus
- Price, Consensus and EPS Surprise
- Price & EPS Surprise
- 12 Month EPS
- Broker Recommendations
- Fundamental Charts

#### FINANCIALS

- Financial Overview
- Income Statements
- Balance Sheet
- Cash flow Statements

#### OPTIONS

- Option Chain
- Options Greek Montage

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### Costco Whole Cp: (COST)

(Real Time Quote From BATS)

\$150.38 USD

-0.61 (-0.40%)

Updated Oct 26, 2016 09:56 AM ET

Volume: 126.644 Zacks Rank [?]:

Open: \$150.35 Style Scores [?]:

Prior Close: \$150.99

Add to portfolio

Trades from \$3

3-Hold

Value: B | Growth: C | Momentum: F | VGM: C

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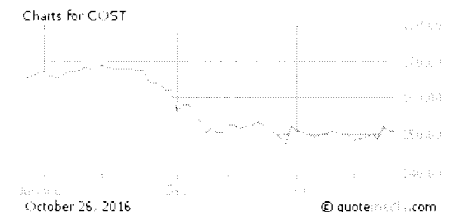
##### Stock Activity

Open	150.35
Day Low	150.35
Day High	151.23
52 Wk Low	138.57
52 Wk High	169.73
Avg. Volume	2,579,076
Market Cap	66.06 B
Dividend	1.80 ( 1.19%)
Beta	0.71
Industry	RETAIL-DISCOUNT

##### Key Earnings Data

Forward PE	25.50
PEG Ratio	2.40
Current Qtr Est	1.20
Current Yr Est	5.92
Most Accurate Est	1.20
Qtr Earnings ESP[?]	0.00%
Exp Earnings Date	12/13/16
Prior Year EPS	5.33
Exp EPS Growth (3-5yr)	10.61%

#### Chart for COST



Interactive Chart | Fundamental Charts

#### Research Reports For COST

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#### Zacks News For COST

- Staples (SPLS) Remains Well Poised for Long-Term Growth 10/10/16-9:07AM EST Zacks
- Cato Corp Repeats Dismal Trend, September Comps Fall 8% 10/10/16-8:30AM EST Zacks
- Buckle Continues with its Dismal Comparable Sales Trend 10/10/16-8:26AM EST Zacks
- Costco Wholesale Banks on Expansion Strategy for Growth 10/10/16-8:00AM EST Zacks
- L Brands Comps Up in September, October View Promising 10/07/16-5:34AM EST Zacks

More Zacks News for COST »

#### Other News For COST

- PediaPlex Hosts Allergy-Friendly Halloween... 10/24/16-10:56AM EST PR Web
- Sapura Appoints Chairman And Interim Chief... 10/24/16-3:21AM EST Alliance News
- Alibaba Pulls Out All the Stops For Singles Day... 10/21/16-11:30AM EST Investors Business Daily
- Here's Why Investors Should Still Be Skeptical of... 10/21/16-11:30AM EST TheStreet.com
- Can Results Boost American Express' Confidence?





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- Method for Trading
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- Full Company Report
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- Earnings Announcements
- Broker Reports
- Insiders
- Broker Recommendations
- Earnings Transcripts

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- Comparative
- Interactive Charts
- \* Price and Consensus
- Price, Consensus and EPS Surprise
- Price & EPS Surprise
- 12 Month EPS
- Broker Recommendations
- Fundamental Charts

**FINANCIALS**

- Financial Overview
- Income Statements
- Balance Sheet
- Cash flow Statements

**OPTIONS**

- Option Chain
- Options Greek Montage

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**Kellogg Co: (K)**

(Real Time Quote From BATS)

**\$74.02 USD**

-0.19 (-0.26%)

Updated Oct 26, 2016 09:56 AM ET

Volume: 27,316

Open: \$74.19

Prior Close: \$74.21

**Zacks Rank** [?]:

**Style Scores** [?]:

Add to portfolio  Trades from \$3

3-Hold

Value: C | Growth: B | Momentum: F | VGM: C

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**Quote Overview**

Enter Symbol

**Stock Activity**

Open	74.19
Day Low	74.16
Day High	74.41
52 Wk Low	64.65
52 Wk High	87.16
Avg. Volume	1,636,114
Market Cap	25.99 B
Dividend	2.08 (2.80%)
Beta	0.47
Industry	FOOD-MISC/DIVERSIFIED

**Key Earnings Data**

Forward PE	20.50
PEG Ratio	3.26
Current Qtr Est	0.87
Current Yr Est	3.62
Most Accurate Est	0.86
Qtr Earnings ESP[?]	-1.15%
Exp Earnings Date	*BMO 11/1/16
Prior Year EPS	3.53
Exp EPS Growth (3-5yr)	6.28%

\*BMO = Before Market Open \*AMC = After Market Close

**Research Reports For K**

[All Zacks' Analyst Reports »](#)

**Zacks News For K**

Stock Market News for October 14, 2016

10/14/16-9:10AM EST Zacks

Kellogg (K) to Buy Brazilian Food Maker, Buyback Trimmed

10/14/16-7:12AM EST Zacks

Salesforce Buys Artificial Intelligence Company Krux Digital

10/04/16-11:58AM EST Zacks

Nutanix's NASDAQ Debut Set on Sep 30, to Raise \$241.5M...

10/03/16-8:57AM EST Zacks

Nutanix's NASDAQ Debut Set on Sep 30, to Raise \$241.5M

09/30/16-9:45AM EST Zacks

[More Zacks News for K »](#)

**Chart for K**



Interactive Chart | Fundamental Charts

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**Other News For K**

Prepare To Be Bowled Over: MorningStar Farms®

10/24/16-6:57AM EST PR Newswire

Kellogg Company Declares Regular Dividend of...

10/21/16-10:12AM EST PR Newswire

Kellogg declares \$0.52 dividend

10/21/16-9:30AM EST Seeking Alpha

Coca-Cola Co./PepsiCo Inc.: Two Dividend...

10/21/16-8:45AM EST Seeking Alpha

Digital Realty Trust not a buy yet

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- Method for Trading
- Options Trader
- Reitmeister Trader
- Research Wizard
- Short List
- Stocks Under \$10
- Surprise Trader
- Tactical Trader
- Top 10 Stocks
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- Quote Overview
- Real Time Quotes
- News

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- \* Snapshot
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- \* Detailed Estimates
- Comparison to Industry

**MORE RESEARCH**

- Full Company Report
- Broker Digest Report
- Earnings Announcements
- Broker Reports
- Insiders
- Broker Recommendations
- Earnings Transcripts

**CHARTS**

- Comparative
- Interactive Charts
- \* Price and Consensus
- Price, Consensus and EPS Surprise
- Price & EPS Surprise
- 12 Month EPS
- Broker Recommendations
- Fundamental Charts

**FINANCIALS**

- Financial Overview
- Income Statements
- Balance Sheet
- Cash flow Statements

**OPTIONS**

- Option Chain
- Options Greek Montage

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**Kimberly Clark: (KMB)**

(Real Time Quote From BATS)

\$113.25 USD

-0.48 (-0.42%)

Updated Oct 26 2016 09:58 AM ET

Volume: 171,720 Zacks Rank <sup>[?]</sup>:

Open: \$112.96 Style Scores <sup>[?]</sup>:

Prior Close: \$113.73

Add to portfolio Trades from \$3

4-Sell

Value: D | Growth: B | Momentum: C | VGM: C

**View All Zacks Rank #1 Strong Buys**

**Quote Overview**

Enter Symbol

**Stock Activity**

Open	112.96
Day Low	112.64
Day High	113.68
52 Wk Low	112.64
52 Wk High	138.87
Avg. Volume	1,949,958
Market Cap	40.90 B
Dividend	3.68 ( 3.24%)
Beta	0.42
Industry	CONSUMER PRD-MISC STPL

**Key Earnings Data**

Forward PE	18.92
PEG Ratio	2.66
Current Qtr Est	1.45
Current Yr Est	6.01
Most Accurate Est	1.43
Qtr Earnings ESP <sup>[?]</sup>	-1.38%
Exp Earnings Date	1/23/17
Prior Year EPS	5.76
Exp EPS Growth (3-5yr)	7.11%

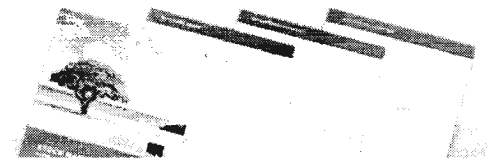
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**Other News For KMB**

- B/E Aerospace, Microsoft and T-Mobile rise; AT&T...  
10/24/16-4:42PM EST Associated Press, The
- Kimberly-Clark Sees Full Year Profit Falling Below...  
10/24/16-8:31AM EST Alliance News
- Kimberly-Clark misses 3Q profit forecasts  
10/24/16-7:34AM EST Associated Press, The
- Kimberly-Clark Announces Third Quarter 2016...  
10/24/16-7:26AM EST PR Newswire

LONDON MARKET MIDDAY: Stocks Lose Gains...

**Research Reports For KMB**

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**Zacks News For KMB**

- Company News for October 25, 2016  
10/25/16-9:10AM EST Zacks
- Q3 Earnings Continue Amid AT&T/Time Warner News  
10/24/16-9:24AM EST Zacks
- Kimberly-Clark (KMB) Lags Q3 Earnings, Tightens 2016 View  
10/24/16-9:21AM EST Zacks
- Kimberly-Clark (KMB) Misses on Q3 Earnings and Revenue  
10/24/16-6:48AM EST Zacks
- Consumer Stocks to Report Earnings on Oct 24: VFC, KMB, ERI  
10/20/16-5:59AM EST Zacks

[More Zacks News for KMB »](#)

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- Options Trader
- Reitmeister Trader
- Research Wizard
- Short List
- Stocks Under \$10
- Surprise Trader
- Tactical Trader
- Top 10 Stocks
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- Quote Overview
- Real Time Quotes
- News

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- \* Snapshot
- \* Analyst Report
- \* Style Scores
- \* Detailed Estimates
- Comparison to Industry

**MORE RESEARCH**

- Full Company Report
- Broker Digest Report
- Earnings Announcements
- Broker Reports
- Insiders
- Broker Recommendations
- Earnings Transcripts

**CHARTS**

- Comparative
- Interactive Charts
- \* Price and Consensus
- Price, Consensus and EPS Surprise
- Price & EPS Surprise
- 12 Month EPS
- Broker Recommendations
- Fundamental Charts

**FINANCIALS**

- Financial Overview
- Income Statements
- Balance Sheet
- Cash flow Statements

**OPTIONS**

- Option Chain
- Options Greek Montage

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**Procter & Gambl: (PG)**

(Real Time Quote From BATS)

**\$87.16 USD**

+0.19 (0.22%)

Updated Oct 26, 2016 09:58 AM ET

Volume: 452,948

Zacks Rank <sup>[?]</sup>:

3-Hold

Open: \$86.91

Style Scores <sup>[?]</sup>:

Value: D | Growth: C | Momentum: F | VGM:

Prior Close: \$86.97

Add to portfolio  Trades from \$3

[View All Zacks Rank #1 Strong Buys](#)

**Quote Overview**

Enter Symbol

**Stock Activity**

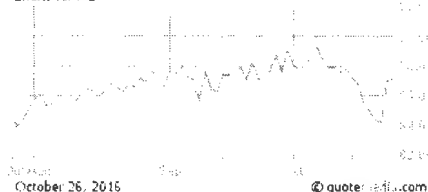
Open	86.91
Day Low	86.78
Day High	87.16
52 Wk Low	73.95
52 Wk High	90.33
Avg. Volume	31,714,560
Market Cap	232.16 B
Dividend	2.68 ( 3.08%)
Beta	0.54
Industry	SOAP&CLNG PREPS

**Key Earnings Data**

Forward PE	22.48
PEG Ratio	3.26
Current Qtr Est	1.08
Current Yr Est	3.87
Most Accurate Est	1.07
Qtr Earnings ESP <sup>[?]</sup>	-0.93%
Exp Earnings Date	1/24/17
Prior Year EPS	3.67
Exp EPS Growth (3-5yr)	6.90%

**Chart for PG**

Charts for PG



Interactive Chart | Fundamental Charts

**Research Reports For PG**

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**Zacks News For PG**

- Company News for October 26, 2016  
10/26/16-9:16AM EST Zacks
- Helen of Troy's Oxo Brand to Develop New Injection Device  
10/25/16-3:29PM EST Zacks
- Under Armour Beats Q3 Earnings, Stock Down 14%  
10/25/16-9:17AM EST Zacks
- Procter & Gamble (PG) Q1 Earnings & Sales Top, View Intact  
10/25/16-9:05AM EST Zacks
- Procter & Gamble (PG) Q1 Earnings, Sales Beat Estimates  
10/25/16-7:17AM EST Zacks

[More Zacks News for PG »](#)

**Other News For PG**

- Dreft and Actress Molly Sims Celebrate Launch of...  
10/26/16-8:56AM EST Business Wre
- Stocks Close Firmly In Negative Territory - US...  
10/25/16-4:35PM EST Alliance News
- Under Armour, Sherwin-Williams slump; Procter &...  
10/25/16-4:25PM EST Associated Press, The
- Stocks Remain Stuck In Negative Territory In...  
10/25/16-12:02PM EST Alliance News
- Stocks Move To The Downside Amid Slew Of...

- Momentum Trader
- Motivo for Trading
- Options Trader
- Reimaster Trader
- Research Wizard
- Short List
- Stocks Under \$10
- Surprise Trader
- Tactical Trader
- Top 10 Stocks
- Value Investor

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QUOTES & NEWS

- Quote Overview
- Real Time Quotes
- News

ZACKS RESEARCH

- SnapShot
- Analyst Report
- Style Scores
- Detailed Estimates
- Comparison to Industry

MORE RESEARCH

- Full Company Report
- Broker Digest Report
- Earnings Announcements
- Broker Reports
- Insiders
- Broker Recommendations
- Earnings Transcripts

CHARTS

- Comparative
- Interactive Charts
- Price and Consensus
- Price Consensus and EPS Surprise
- Price & EPS Surprise
- 12 Month EPS
- Broker Recommendations
- Fundamental Charts

FINANCIALS

- Financial Overview
- Income Statements
- Balance Sheet
- Cash flow Statements

OPTIONS

- Option Chain
- Options Greek Montage

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Smucker Jm: (SJM)

(Real Time Quote From BATS)

\$130.81 USD

+0.62 (+0.48%)

Updated Oct 26, 2016 10:00 AM ET

Volume: 32,010

Open: \$130.50

Prev Close: \$130.19

Zacks Rank <sup>TM</sup>

Style Scores <sup>TM</sup>

Add to portfolio Trades from 93

4 Sell

Value: C Growth: A Momentum: C YGM: B

View All Zacks Rank #1 Strong Buys

Quote Overview

Stock Activity		Key Earnings Data	
Open	130.50	Forward PE	16.62
Day Low	130.15	PEG Ratio	2.56
Day High	131.50	Current Qtr Est	1.44
52 Wk Low	111.01	Current Yr Est	7.31
52 Wk High	157.51	Most Accurate Est	1.96
Avg Volume	749,844	Qtr Earnings FSD <sup>TM</sup>	1.63%
Market Cap	15.16 B	Exp Earnings Date	11/17/16
Dividend	3.00 (+2.80%)	Prior Year EPS	6.57
Beta	0.63	Exp EPS Growth (est)	7.18%
Industry	FOOD-WISCD/DIVERSIFLD		

Research Reports For SJM

All Zacks Analyst Reports »

Zacks News For SJM

What to Expect from Robert Hall (RHI) of Q3 Earnings?  
10/17/16 8:00AM EST Zacks

Will Global Worries Limit Consumer Staples Stocks?  
09/28/16 3:47PM ET Zacks

4 Great Dividend Stocks in the Consumer Staples Sector  
08/30/16 8:34AM EST Zacks

Company News for August 24, 2016  
08/24/16 8:59AM EST Zacks

J.M. Smucker Tops Q1 Earnings, Sales Lag on Ex. Divestiture  
08/23/16 8:16AM EST Zacks

More Zacks News for SJM »

Chart for SJM



Other News For SJM

The J. M. Smucker Company Declares Dividend  
10/21/16 4:11PM EST PRNewswire

J. M. Smucker declares \$0.75 dividend  
10/21/16 4:05AM EST Seeking Alpha

John Rogers Comments on J.M. Smucker Co  
10/21/16 3:47AM EST GuruFocus

John Rogers Comments on J.M. Smucker Co  
10/21/16 3:47AM EST GuruFocus

Digital Realty Trust not a buy yet



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- Method for Trading
- Options Trader
- Reitmeister Trader
- Research Wizard
- Short List
- Stocks Under \$10
- Surprise Trader
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- Quote Overview
- Real Time Quotes
- News

ZACKS RESEARCH

- \* Snapshot
  - \* Analyst Report
  - \* Style Scores
  - \* Detailed Estimates
    - Comparison to Industry
- MORE RESEARCH**
- Full Company Report
  - Broker Digest Report
  - Earnings Announcements
  - Broker Reports
  - Insiders
  - Broker Recommendations
  - Earnings Transcripts

CHARTS

- Comparative
- Interactive Charts
- \* Price and Consensus
  - Price, Consensus and EPS Surprise
  - Price & EPS Surprise
  - 12 Month EPS
- Broker Recommendations
- Fundamental Charts

FINANCIALS

- Financial Overview
- Income Statements
- Balance Sheet
- Cash flow Statements

OPTIONS

- Option Chain
- Options Greek Montage

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**Sysco Corp: (SYY)**

(Real Time Quote From BATS)

\$ **47.37** USD

-0.07 (-0.15%)

Updated Oct 26, 2016 10:00 AM ET

Volume: 91,735 **Zacks Rank** <sup>[?]</sup>:  
 Open: \$47.38 **Style Scores** <sup>[?]</sup>: Value: B | Growth: A | Momentum: B | VGM: **A**  
 Prior Close: \$47.44

[+](#) Add to portfolio [Trades from \\$3](#)

2-Buy

[View All Zacks Rank #1 Strong Buys](#)

**Quote Overview**

Enter Symbol

Stock Activity	Key Earnings Data
Open 47.38	Forward PE 20.43
Day Low 47.38	PEG Ratio 2.31
Day High 47.49	Current Qtr Est 0.59
52 Wk Low 38.84	Current Yr Est 2.32
52 Wk High 53.97	Most Accurate Est 0.60
Avg. Volume 3,287,681	Qtr Earnings ESP <sup>[?]</sup> 1.70%
Market Cap 26.15 B	Exp Earnings Date <sup>*BMO</sup> 11/7/16
Dividend 1.24 (2.61%)	Prior Year EPS 2.10
Beta 0.51	Exp EPS Growth (3-5yr) 8.83%
Industry	FOOD-MISC/DIVERSIFIED

\*BMO = Before Market Open \*AMC = After Market Close

**Chart for SYY**

Charts for SYY



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**Research Reports For SYY**

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**Zacks News For SYY**

- What's in Store for Molson Coors (TAP) in Q3 Earnings?  
10/26/16-8:21AM EST Zacks
- Kellogg (K) to Buy Brazilian Food Maker, Buyback Trimmed  
10/14/16-7:12AM EST Zacks
- 4 Low Beta Consumer Staples Stocks for a Risky October  
10/04/16-1:43PM EST Zacks
- Is an Improving Economy Driving Consumer Staples Stocks?  
09/28/16-2:56PM EST Zacks
- This Week's Top Growth & Income Stocks: (SYY) (TATYY)  
09/28/16-1:46PM EST Zacks

[More Zacks News for SYY »](#)

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**Other News For SYY**

- Sysco to Release First Quarter Fiscal 2017...  
10/24/16-5:12PM EST GlobeNewswire
- Supervalu Wants to Boost Its Sluggish Wholesale...  
10/19/16-7:15AM EST Market Realist
- SYSCO Is An Investment To Consider Seriously  
10/15/16-4:30AM EST Seeking Alpha
- Sysco Becomes #99 Most Shorted S&P 500...  
10/13/16-6:15AM EST Market News Video
- Free Market Capitalist September Dividend Income

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- Method for Trading
- Options Trader
- Reitmeister Trader
- Research Wizard
- Short List
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- Quote Overview
- Real Time Quotes
- News

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- \* Snapshot
- \* Analyst Report
- \* Style Scores
- \* Detailed Estimates
- Comparison to Industry

**MORE RESEARCH**

- Full Company Report
- Broker Digest Report
- Earnings Announcements
- Broker Reports
- Insiders
- Broker Recommendations
- Earnings Transcripts

**CHARTS**

- Comparative
- Interactive Charts
- \* Price and Consensus
- Price, Consensus and EPS Surprise
- Price & EPS Surprise
- 12 Month EPS
- Broker Recommendations
- Fundamental Charts

**FINANCIALS**

- Financial Overview
- Income Statements
- Balance Sheet
- Cash flow Statements

**OPTIONS**

- Option Chain
- Options Greek Montage

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**Verizon Comm: (VZ)**

(Real Time Quote From BATS)

**\$47.80 USD**

-0.04 (-0.08%)

Updated Oct 26, 2016 10:00 AM ET

Volume: 845,931

Zacks Rank <sup>[?]</sup>:

3-Hold

Open: \$47.74

Style Scores <sup>[?]</sup>:

Value: B | Growth: D | Momentum: B | VM: B

Prior Close: \$47.84

[View All Zacks Rank #1 Strong Buys](#)

Add to portfolio  Trades from \$3

**Quote Overview**

Enter Symbol

**Stock Activity**

Open	47.74
Day Low	47.74
Day High	47.93
52 Wk Low	43.79
52 Wk High	56.95
Avg. Volume	13,689,246
Market Cap	195.04 B
Dividend	2.31 ( 4.83%)
Beta	0.30
Industry	WIRELESS NATIONAL

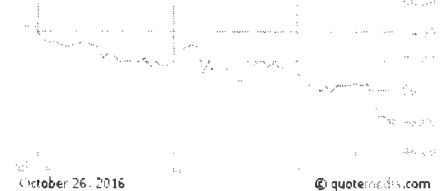
**Key Earnings Data**

Forward PE	12.23
PEG Ratio	2.96
Current Qtr Est	0.90
Current Yr Est	3.91
Most Accurate Est	0.91
Qtr Earnings ESP <sup>[?]</sup>	1.11%
Exp Earnings Date <sup>*BMO</sup>	1/24/17
Prior Year EPS	3.99
Exp EPS Growth (3-5yr)	4.13%

\*BMO = Before Market Open \*AMC = After Market Close

**Chart for VZ**

Charts for VZ



October 26, 2016

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**Zacks News For VZ**

Comcast (CMCSA) Q3 Earnings in Line. Revenues Beat  
10/26/16-8:55AM EST Zacks

Sprint (S) Q2 Loss Narrower than Expected. '16 View Raised  
10/25/16-9:08AM EST Zacks

T-Mobile US (TMUS) Tops Q3 Earnings Estimates. Lifts View  
10/24/16-9:05AM EST Zacks

AT&T (T) Earnings Meet. Revenues Miss Estimates in Q3  
10/24/16-9:03AM EST Zacks

AT&T (T) to Acquire Time Warner in \$85.4 Billion Mega Deal  
10/24/16-8:11AM EST Zacks

[More Zacks News for VZ »](#)

**Other News For VZ**

Major Keynotes & Education Featured at New York...  
10/26/16-7:56AM EST PR Web

Cheaper phones are fine \_ if top-end camera isn't...  
10/25/16-11:44AM EST Associated Press, The

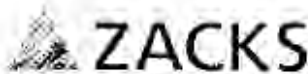
Building Tomorrow's Networks: Best Practices for...  
10/25/16-8:41AM EST PR Web

AT&T's \$85.4B deal for Time Warner: A new bet...  
10/23/16-12:03AM EST Associated Press, The

AT&T agrees to buy Time Warner for \$85 billion

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- Method for Trading
- Options Trader
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- Research Wizard
- Short List
- Stocks Under \$10
- Surprise Trader
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- Quote Overview
- Real Time Quotes
- News

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- Snapshot
- Analyst Report
- Style Scores
- Detailed Estimates
- Comparison to Industry

**MORE RESEARCH**

- Full Company Report
- Broker Digest Report
- Earnings Announcements
- Broker Reports
- Insiders
- Broker Recommendations
- Earnings Transcripts

**CHARTS**

- Comparative
- Interactive Charts
- Price and Consensus
- Price, Consensus and EPS Surprise
- Price & EPS Surprise
- 12 Month EPS
- Broker Recommendations
- Fundamental Charts

**FINANCIALS**

- Financial Overview
- Income Statements
- Balance Sheet
- Cash flow Statements

**OPTIONS**

- Option Chain
- Options Greek Montage
- Access Zacks Data Feed

**Wal-Mart Stores: (WMT)**

(Real Time Quote From BATS)

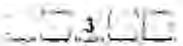
\$69.30 (USD)

Volume

733,681

Zacks Rank #1

3-Hold



-0.06 (-0.09%)

Open

\$69.30

Style Scores (7)

Value A Growth A Momentum C VSMA (A)

Updated Oct 18, 2016 10:00 AM ET

Prior Close

\$69.36

[View All Zacks Rank #1 Strong Buys](#)

[Add to portfolio](#)

[Trades from 53](#)

**Quote Overview**

Enter Symbol

**Stock Activity**

Open	69.30
Day Low	69.20
Day High	69.48
52 Wk Low	66.30
52 Wk High	75.18
Avg Volume	6,462,648
Market Cap	244.62 B
Dividend	2.00 (+2.88%)
Yield	0.29
Industry	RETAIL SUPERMKT

**Key Earnings Data**

Forward PE	16.04
P/E10 Ratio	1.04
Current Qtr Est	0.96
Current Yr Est	4.62
Most Accurate Est	0.96
Qtr Earnings ESP (%)	+0.00%
Exp Earnings Date	10/25/16 (1/16)
1-Month EPS	0.52
Exp EPS Growth (%)	5.28%

**Chart for WMT**

10/26/2016

10/26/2016

10/26/2016



**Slow and Steady Wins:  
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**Zacks News For WMT**

Central Garden & Pet Announces Segregated for \$60 Million 10/26/16 1:53AM EST Zacks

Homegear Offers Vizio TV and Soundbars for Holiday Season 10/21/16 4:13PM EST Zacks

Wal-Mart to Invest in China's Grocery Platform New Data 10/21/16 7:59AM EST Zacks

China Stock Roundup: JD.com, Wal-Mart Launch New Customer 10/20/16 4:41PM EST Zacks

Wal-Mart & JD.com Expand Online Shopping Options in China 10/20/16 6:02AM EST Zacks

[More Zacks News for WMT »](#)

**Other News For WMT**

MoneyGram and Wal-Mart Launch New 10/26/16 1:19AM EST All-India News

Wal and Walmart Expand Walmart2Walmart... 10/25/16 5:05PM EST GlobalNewsWire

Walmart Delivers Lowest Prices Ever for Domestic... 10/25/16 4:58PM EST Business Wire

What is the best Nootropic Brain Supplement? 10/25/16 6:03AM EST PR Web

AviDar Brings Instant Touchscreen Capabilities to...

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# **2016** Valuation Handbook Guide to Cost of Capital

Market Results Through 2015

Duff & Phelps

**WILEY**

**Exhibit 7.3:** CRSP (NYSE/NYSE MKT/NASDAQ) Deciles; Returns in Excess of CAPM (i.e. beta-adjusted Size Premium, as of December 31, 2015)

Size Grouping	OLS Beta	Arithmetic Mean	Return in Excess of Risk-free Rate (actual)	Return in Excess of Risk-free Rate (as predicted by CAPM)	Size Premium
Mid-Cap (3–5)	1.12	13.80%	8.75%	7.75%	1.00%
Low-Cap (6–8)	1.22	15.19%	10.14%	8.44%	1.70%
Micro-Cap (9–10)	1.35	17.93%	12.88%	9.31%	3.58%

#### Breakdown of Deciles 1–10

1-Largest	0.92	11.05%	6.00%	6.36%	-0.36%
2	1.04	12.78%	7.73%	7.16%	0.57%
3	1.10	13.53%	8.49%	7.63%	0.86%
4	1.12	13.80%	8.75%	7.76%	0.99%
5	1.17	14.59%	9.54%	8.05%	1.49%
6	1.17	14.77%	9.72%	8.09%	1.63%
7	1.25	15.29%	10.25%	8.62%	1.62%
8	1.30	16.08%	11.03%	8.99%	2.04%
9	1.34	16.81%	11.77%	9.23%	2.54%
10-Smallest	1.39	20.26%	15.21%	9.61%	5.60%

#### Breakdown of 10th Decile

10a	1.40	18.78%	13.74%	9.70%	4.04%
10w	1.38	17.62%	12.57%	9.53%	3.04%
10x	1.44	20.31%	15.27%	9.97%	5.30%
10b	1.37	23.26%	18.21%	9.45%	8.76%
10y	1.42	22.18%	17.13%	9.81%	7.32%
10z	1.28	25.69%	20.65%	8.86%	11.79%

**Source of underlying data:** Calculated (or derived) based on data from CRSP ©2016 Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business (2016). Calculations by Duff & Phelps LLC.

### Size Premium Calculation: Risk Premium Report

In the *2016 Valuation Handbook*, the Risk Premium Report size studies are calculated over the years 1963–2015. The following statistics are calculated over this time period:

- The “historical” average annual long-term equity risk premium is 4.93%.
- The average annual risk-free rate is 6.54%.
- In Risk Premium Report Exhibit B-3 (25 portfolios sorted from largest companies to smallest companies by net income), portfolio 25 average annual return equals 21.08%
- In Risk Premium Report Exhibit B-3, portfolio 25 has a sum beta of 1.31



**Average Equity Returns Authorized January 1990 - December 2015**

Year	Period	Electric Utilities		Gas Utilities	
		ROE %	(# Cases)	ROE %	(# Cases)
1990	Full Year	12.70	(44)	12.67	(31)
1991	Full Year	12.55	(45)	12.46	(35)
1992	Full Year	12.09	(48)	12.01	(29)
1993	Full Year	11.41	(32)	11.35	(45)
1994	Full Year	11.34	(31)	11.35	(28)
1995	Full Year	11.55	(33)	11.43	(16)
1996	Full Year	11.39	(22)	11.19	(20)
1997	Full Year	11.40	(11)	11.29	(13)
1998	Full Year	11.66	(10)	11.51	(10)
1999	Full Year	10.77	(20)	10.66	(9)
2000	Full Year	11.43	(12)	11.39	(12)
2001	Full Year	11.09	(18)	10.95	(7)
2002	Full Year	11.16	(22)	11.03	(21)
2003	Full Year	10.97	(22)	10.99	(25)
2004	Full Year	10.75	(19)	10.59	(20)
2005	Full Year	10.54	(29)	10.46	(26)
2006	Full Year	10.36	(26)	10.43	(16)
2007	Full Year	10.36	(39)	10.24	(37)
2008	Full Year	10.46	(37)	10.37	(30)
2009	Full Year	10.48	(39)	10.19	(29)
2010	Full Year	10.37	(61)	10.15	(39)
	1st Quarter	10.32	(13)	10.10	(5)
	2nd Quarter	10.12	(10)	9.88	(5)
	3rd Quarter	10.36	(8)	9.65	(2)
	4th Quarter	10.34	(11)	9.88	(4)
<b>2011</b>	<b>Full Year</b>	<b>10.29</b>	<b>(42)</b>	<b>9.92</b>	<b>(16)</b>
	1st Quarter	10.84	(12)	9.63	(5)
	2nd Quarter	9.92	(13)	9.83	(8)
	3rd Quarter	9.78	(8)	9.75	(1)
	4th Quarter	10.10	(25)	10.07	(21)
<b>2012</b>	<b>Full Year</b>	<b>10.17</b>	<b>(58)</b>	<b>9.94</b>	<b>(35)</b>
	1st Quarter	10.28	(14)	9.57	(3)
	2nd Quarter	9.84	(7)	9.47	(6)
	3rd Quarter	10.06	(7)	9.60	(1)
	4th Quarter	9.91	(21)	9.83	(11)
<b>2013</b>	<b>Full Year</b>	<b>10.03</b>	<b>(49)</b>	<b>9.68</b>	<b>(21)</b>
	1st Quarter	10.23	(8)	9.54	(6)
	2nd Quarter	9.83	(5)	9.84	(8)
	3rd Quarter	9.87	(12)	9.45	(6)
	4th Quarter	9.78	(13)	10.28	(6)
<b>2014</b>	<b>Full Year</b>	<b>9.91</b>	<b>(38)</b>	<b>9.78</b>	<b>(26)</b>
	1st Quarter	10.37	(9)	9.47	(3)
	2nd Quarter	9.73	(7)	9.43	(3)
	3rd Quarter	9.40	(2)	9.75	(1)
	4th Quarter	9.62	(12)	9.68	(9)
<b>2015</b>	<b>Year-to-Date</b>	<b>9.85</b>	<b>(30)</b>	<b>9.60</b>	<b>(16)</b>

2.

Average Equity Returns Authorized January 1960 - December 1969

(Return Percent - No. of Observations)

Period	Electric Utilities	Gas Utilities	Telephone Utilities
1960 1st Quarter	13.97 (21)	13.45 (19)	12.63 (6)
2nd Quarter	14.35 (25)	14.38 (9)	12.63 (10)
3rd Quarter	14.30 (25)	13.87 (12)	12.63 (12)
4th Quarter	14.32 (23)	14.36 (23)	12.52 (12)
1960 Full Year	14.23 (104)	14.05 (57)	12.64 (40)
1961 1st Quarter	14.87 (21)	14.69 (9)	13.68 (19)
2nd Quarter	15.03 (40)	14.61 (10)	14.16 (18)
3rd Quarter	15.31 (26)	14.88 (18)	14.37 (18)
4th Quarter	15.58 (36)	15.79 (23)	14.71 (20)
1961 Full Year	15.22 (123)	15.11 (60)	14.33 (64)
1962 1st Quarter	15.71 (29)	15.55 (15)	14.65 (12)
2nd Quarter	15.60 (35)	15.62 (16)	15.09 (17)
3rd Quarter	15.63 (27)	15.72 (22)	15.61 (11)
4th Quarter	15.97 (34)	15.82 (30)	15.65 (14)
1962 Full Year	15.76 (125)	15.62 (83)	15.12 (64)
1963 1st Quarter	15.53 (26)	15.41 (15)	14.75 (15)
2nd Quarter	15.10 (18)	14.84 (14)	14.75 (17)
3rd Quarter	15.39 (23)	15.24 (16)	14.95 (9)
4th Quarter	15.35 (28)	15.41 (20)	14.72 (20)
1963 Full Year	15.36 (95)	15.25 (65)	14.93 (71)
1964 1st Quarter	15.08 (19)	15.39 (6)	14.15 (12)
2nd Quarter	15.07 (15)	15.07 (7)	14.75 (6)
3rd Quarter	15.38 (22)	15.37 (12)	14.39 (10)
4th Quarter	15.69 (19)	15.33 (12)	14.79 (7)
1964 Full Year	15.32 (75)	15.31 (39)	14.59 (35)
1965 1st Quarter	15.51 (15)	15.03 (8)	14.63 (10)
2nd Quarter	15.27 (12)	15.44 (4)	14.99 (10)
3rd Quarter	14.91 (14)	14.64 (9)	14.69 (6)
4th Quarter	15.11 (17)	14.44 (13)	14.58 (14)
1965 Full Year	15.20 (58)	14.75 (34)	14.99 (40)
1966 1st Quarter	14.35 (14)	14.05 (4)	14.08 (9)
2nd Quarter	14.27 (16)	13.38 (9)	14.63 (7)
3rd Quarter	13.18 (10)	13.69 (5)	13.95 (5)
4th Quarter	13.52 (9)	13.63 (7)	13.98 (3)
1966 Full Year	13.93 (49)	13.45 (26)	13.99 (18)
1967 1st Quarter	12.82 (12)	12.81 (7)	12.39 (1)
2nd Quarter	13.15 (10)	13.13 (5)	12.61 (4)
3rd Quarter	13.17 (16)	12.58 (6)	12.95 (4)
4th Quarter	12.79 (19)	12.73 (12)	12.95 (4)
1967 Full Year	12.99 (57)	12.74 (39)	12.62 (19)
1968 1st Quarter	12.74 (8)	12.94 (5)	12.79 (2)
2nd Quarter	12.70 (7)	12.48 (4)	12.99 (1)
3rd Quarter	12.63 (8)	12.79 (9)	12.37 (2)
4th Quarter	12.96 (10)	12.66 (13)	12.39 (7)
1968 Full Year	12.79 (33)	12.65 (31)	12.19 (13)
1969 1st Quarter	13.04 (9)	12.99 (4)	12.96 (5)
2nd Quarter	13.22 (7)	13.35 (3)	12.79 (8)
3rd Quarter	12.38 (2)	12.56 (3)	12.79 (2)
4th Quarter	12.84 (9)	12.94 (16)	12.83 (7)
1969 Full Year	12.97 (27)	12.85 (31)	12.97 (19)

*Special Research Study  
January 1986*

Argus  
Utility Scope  
Regulatory  
Service

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*RETURNS AUTHORIZED  
JULY 1974 — DECEMBER 1985*



<u>Year</u>	<u>ROE</u>	<u>Year</u>	<u>ROE</u>
1974	13.1	1980	14.1
1975	13.2	1981	15.2
1976	13.1	1982	15.8
1977	13.3	1983	15.4
1978	13.2	1984	15.4
1979	13.5	1985	15.2

TABLE OF CONTENT

<u>Commission</u>	<u>Page</u>	<u>Commission</u>	<u>Page</u>
Alabama	4	Montana	64
Arizona	6	Nebraska	66
Arkansas	8	Nevada	68
California	10	New Hampshire	70
Colorado	14	New Jersey	72
Connecticut	16	New Mexico	74
Delaware	18	New York	76
District of Columbia	20	North Carolina	82
Florida	22	North Dakota	86
Georgia	24	Ohio	88
Hawaii	26	Oklahoma	92
Idaho	28	Oregon	94
Illinois	30	Pennsylvania	96
Indiana	34	Rhode Island	100
Iowa	36	South Carolina	102
Kansas	40	South Dakota	104
Kentucky	42	Tennessee	106
Louisiana	44	Texas	108
Maine	46	Utah	112
Maryland	48	Vermont	114
Massachusetts	50	Virginia	116
Michigan	54	Washington	118
Minnesota	56	West Virginia	120
Mississippi	58	Wisconsin	122
Missouri	60	Wyoming	126

NOTE: This Research Study has been prepared solely for the use of our clients and under no circumstance is it to be duplicated or disseminated to a party or parties outside your organization.

**KENTUCKY UTILITIES COMPANY**

**CASE NO. 2016-00370**

**Response to Attorney General's Initial Data Requests for Information  
Dated January 11, 2017**

**Question No. 250**

**Responding Witness: Adrien M. McKenzie**

Q-250. Provide copies of the source documents, work papers, and underlying data used in the development of all exhibits for Mr. McKenzie (Exhibit No. 2 through Exhibit No. 11). Provide the data and work papers in both hard copy and electronic formats (Microsoft Excel), with all data and formulas intact.

A-250. See the response to Question Nos. 248 and 249.



**KENTUCKY UTILITIES COMPANY**

**CASE NO. 2016-00370**

**Response to Attorney General's Initial Data Requests for Information  
Dated January 11, 2017**

**Question No. 251**

**Responding Witness: Adrien M. McKenzie**

- Q-251. With reference to pages 20-23 of Mr. McKenzie's testimony: (1) indicate the universe of electric and utility companies as indicated by Value Line Investment Survey, (2) the companies eliminated from each group from each of the screens; and (3) the reasons each of the companies were eliminated.
- A-251. The requested information is contained in the Excel spreadsheet file provided in response to PSC 1-54.

**KENTUCKY UTILITIES COMPANY**

**CASE NO. 2016-00370**

**Response to Attorney General's Initial Data Requests for Information  
Dated January 11, 2017**

**Question No. 252**

**Responding Witness: Adrien M. McKenzie**

- Q-252. With reference to pages 20-23 of Mr. McKenzie's testimony, provide copies of all studies performed that compare the business, financial, and overall investment risk of Kentucky Utilities to: (1) PPL Corporation and (2) the proxy group of electric and gas companies.
- A-252. Mr. McKenzie discusses the development of the comparable-risk proxy group that served as the basis for applying quantitative models to estimate the cost of equity in Section IV of his Direct Testimony (pp. 19-26). As discussed there, this evaluation focused on published risk indicators that provide an objective assessment of investors' risk perceptions for Kentucky Utilities Company and the proxy group companies. Mr. McKenzie did not conduct any independent empirical studies to compare the risks of Kentucky Utilities Company with PPL Corporation or the proxy group companies; nor was such an analysis necessary or relevant to his analyses and conclusions in this case.

**KENTUCKY UTILITIES COMPANY**

**CASE NO. 2016-00370**

**Response to Attorney General's Initial Data Requests for Information  
Dated January 11, 2017**

**Question No. 253**

**Responding Witness: Adrien M. McKenzie**

- Q-253. With reference to pages 45-46 of Mr. McKenzie's testimony, provide the theoretical and empirical studies that support the use of the size premium.
- A-253. Copies of the source documents cited in Mr. McKenzie's testimony pertaining to the modification of the CAPM results to account for firm size are contained in the work papers provided in response to Question No. 249.

**KENTUCKY UTILITIES COMPANY**

**CASE NO. 2016-00370**

**Response to Attorney General's Initial Data Requests for Information  
Dated January 11, 2017**

**Question No. 254**

**Responding Witness: Adrien M. McKenzie**

- Q-254. With reference to page 47 of Mr. McKenzie's testimony, provide the theoretical and empirical studies that support the use of the ECAPM with the .25/.75 weights versus the traditional CAPM.
- A-254. Copies of the source documents cited on page 47 of Mr. McKenzie's testimony with respect to the ECAPM equation and the referenced weighting factors are contained in his work papers provided in response to Question No. 249.

**KENTUCKY UTILITIES COMPANY**

**CASE NO. 2016-00370**

**Response to Attorney General's Initial Data Requests for Information  
Dated January 11, 2017**

**Question No. 255**

**Responding Witness: Adrien M. McKenzie**

Q-255. With reference to pages 49-52 of Mr. McKenzie's testimony and Exhibit No. 9, provide the following: (1) the individual authorized ROEs that are used in computing the annual Allowed ROEs in Column (a); (2) for each of the individual ROEs, include all of the following: the order or docket number, the state, the utility, the decision date, the authorized ROE, the authorized common equity ratio, whether the rate case was fully litigated or settled, and whether the authorized included any specific ROE adders and/or penalties; and (3) the data and work papers for (1) and (2) in both hard copy and electronic formats (Microsoft Excel), with all data and formulas intact. Also include electronic copies (Microsoft Excel) of the Schedule, leaving all data and formulas intact.

A-255.

(1) As stated in Mr. McKenzie's testimony at page 50, the risk premium study shown on Exhibit No. 9 was based on the annual average allowed ROEs for electric utilities reported by Regulatory Research Associates in each year between 1974 and 2015, with copies of the source documents being provided in response to Question No. 249. Mr. McKenzie did not undertake a study to identify the case-by-case information requested in this question as it was not necessary or relevant to his analysis; nor does he have the information necessary to compile the requested information over the study period encompassed by his risk premium analysis.

(2) See the response to subpart (1).

(3) See the response to subpart (2).



**KENTUCKY UTILITIES COMPANY**

**CASE NO. 2016-00370**

**Response to Attorney General's Initial Data Requests for Information  
Dated January 11, 2017**

**Question No. 256**

**Responding Witness: Adrien M. McKenzie**

Q-256. With reference to page 59, provide: (1) the details of the 3.6% flotation cost and how much is associated with the underwriting spread, company issuance costs, market pressure, and other expenses; and (2) the equity flotation costs paid by Kentucky Utilities over the past two years.

A-256.

(1) Supporting documents pertaining to Mr. McKenzie's reference to the 3.6% flotation cost cited at page 59 of his testimony are included in his work papers provided in response to Question No. 249. This percentage refers only to underwriting spread.

(2) As explained at page 11-12 of Mr. McKenzie's testimony, Kentucky Utilities Company is a wholly owned subsidiary of LG&E and KU Energy LLC, which in turn is a wholly owned subsidiary of PPL Corporation ("PPL"). As a result, Kentucky Utilities Company does not incur flotation costs directly because it is not publicly traded and does not issue common stock. Nevertheless, the common equity investment in Kentucky Utilities Company has been supported through the sale of common stock, with the need for an adjustment to recognize past flotation costs being supported at pages 56-59 of Mr. McKenzie's Direct Testimony.

**KENTUCKY UTILITIES COMPANY**

**CASE NO. 2016-00370**

**Response to Attorney General's Initial Data Requests for Information  
Dated January 11, 2017**

**Question No. 257**

**Responding Witness: Adrien M. McKenzie**

Q-257. With reference to pages 59-63: (1) list the screens applied to the Value Line database in establishing the Non-Utility Proxy Group; (2) indicate the justification for each of the screens applied to the companies in the Value Line Investment Survey in establishing the Non-Utility Proxy Group; (3) the companies eliminated from the group from each of the five screens; and (4) the reasons that each of the companies were eliminated.

A-257.

- (1) Refer to page 61 of Mr. McKenzie's testimony.
- (2) As indicated in Mr. McKenzie's testimony, consistent with the principles underlying the *Hope* and *Bluefield* standards, the purpose of the Non-Utility Group was to apply the opportunity cost standard by developing estimates of investors' required return for a low-risk group of firms in the competitive sector of the economy. Accordingly, the screening criteria identified in Mr. McKenzie's testimony at page 61 were applied in order to restrict the Non-Utility Group to firms with exceedingly conservative risk profiles. As noted on page 62 of Mr. McKenzie's testimony, a review of objective risk indicators suggests that this select group of non-regulated firms has less risk than LGE, KU, or Mr. McKenzie's utility proxy group.
- (3) Because the screening criteria were applied interactively using Value Line's proprietary software, Mr. McKenzie does not have a list of each of the approximately 1,700 firms covered by Value Line and the basis upon which each firm did not meet the required criteria specified in his testimony at page 61.
- (4) Refer to the response to subpart (3).

**KENTUCKY UTILITIES COMPANY**

**CASE NO. 2016-00370**

**Response to Attorney General's Initial Data Requests for Information  
Dated January 11, 2017**

**Question No. 258**

**Responding Witness: Robert M. Conroy**

Q-258. Provide a copy of Mr. Arbough's testimony in Microsoft Word.

A-258. See the response to Question No. 6.

**KENTUCKY UTILITIES COMPANY**

**CASE NO. 2016-00370**

**Response to Attorney General's Initial Data Requests for Information  
Dated January 11, 2017**

**Question No. 259**

**Responding Witness: Daniel K. Arbough**

Q-259. Provide copies of all source documents, articles, cited documents listed in footnotes, regulatory decisions, work papers, and other sources used in the development and preparation of pages 8-13 the testimony of Mr. Arbough.

A-259. See the response to KIUC 1-43.

**KENTUCKY UTILITIES COMPANY**

**CASE NO. 2016-00370**

**Response to Attorney General's Initial Data Requests for Information  
Dated January 11, 2017**

**Question No. 260**

**Responding Witness: Daniel K. Arbough**

- Q-260. With reference to page 8, lines 9-13, provide the quarterly capitalization amounts and ratios for Kentucky Utilities and PPL Corporation for the years 2014 – 2016. Provide the data and work papers in both hard copy and electronic formats (Microsoft Excel), with all data and formulas intact. Also include electronic copies (Microsoft Excel) of the Exhibit, leaving all data and formulas intact.
- A-260. See the response to KIUC 1-43.



**KENTUCKY UTILITIES COMPANY**

**CASE NO. 2016-00370**

**Response to Attorney General's Initial Data Requests for Information  
Dated January 11, 2017**

**Question No. 261**

**Responding Witness: Daniel K. Arbough**

- Q-261. With reference to page 9, lines 8-16, provide the data, source documents and calculations detailing the Moody's debt percentage ratios. Provide the data and work papers in both hard copy and electronic formats (Microsoft Excel), with all data and formulas intact. Also include electronic copies (Microsoft Excel) of the Exhibit, leaving all data and formulas intact.
- A-261. See the response to KIUC 1-43.

**KENTUCKY UTILITIES COMPANY**

**CASE NO. 2016-00370**

**Response to Attorney General's Initial Data Requests for Information  
Dated January 11, 2017**

**Question No. 262**

**Responding Witness: Daniel K. Arbough**

- Q-262. With reference to page 10, lines 15-21, provide the data, source documents and calculations detailing the S&P debt percentage ratios. Provide the data and work papers in both hard copy and electronic formats (Microsoft Excel), with all data and formulas intact. Also include electronic copies (Microsoft Excel) of the Exhibit, leaving all data and formulas intact.
- A-262. See the response to KIUC 1-43.

**KENTUCKY UTILITIES COMPANY**

**CASE NO. 2016-00370**

**Response to Attorney General's Initial Data Requests for Information  
Dated January 11, 2017**

**Question No. 263**

**Responding Witness: Daniel K. Arbough / Counsel**

- Q-263. Provide copies of all presentations made to rating agencies and/or investment firms by PPL, and/or Kentucky Utilities between January 1, 2015 and the present.
- A-263. See the Company's objection filed on January 20, 2017. Without waiver of this objection, see attached. The rating agencies presentations are confidential and proprietary, and are being provided under seal pursuant to a petition for confidential treatment.

PPL presentation to investment firms can be found at the following link and selecting the desired year. <http://pplweb.investorroom.com/events#past:2017:1>

# Attachment Confidential

The entire attachment is  
Confidential and  
provided separately  
under seal.

**KENTUCKY UTILITIES COMPANY**

**CASE NO. 2016-00370**

**Response to Attorney General's Initial Data Requests for Information  
Dated January 11, 2017**

**Question No. 264**

**Responding Witness: Daniel K. Arbough**

- Q-264. Provide copies of all prospectuses for any security issuances by PPL and/or Kentucky Utilities between January 1, 2013 and the present.
- A-264. Attachments 1-4 are for tax exempt securities issued by KU since January 1, 2013. First Mortgage Bonds issued by KU and the securities issued by or guaranteed by PPL Corporation can be found by using the links below:

KU – November 2013

<http://app.quotemedia.com/data/downloadFiling?webmasterId=101533&ref=9213742&type=HTML&symbol=0000055387&companyName=KENTUCKY+UTILITIES+CO&formType=424B2&dateFiled=2013-11-07>

KU – September 2015

<http://app.quotemedia.com/data/downloadFiling?webmasterId=101533&ref=10494057&type=HTML&symbol=0000055387&companyName=KENTUCKY+UTILITIES+CO&formType=424B2&dateFiled=2015-09-22&cik=0000055387>

PPL – March 2013

<http://app.quotemedia.com/data/downloadFiling?webmasterId=101533&ref=8795891&type=HTML&symbol=PPL&companyName=PPL+Corp.&formType=424B2&dateFiled=2013-03-13>

PPL – May 2013

<http://app.quotemedia.com/data/downloadFiling?webmasterId=101533&ref=8945738&type=HTML&symbol=PPL&companyName=PPL+Corp.&formType=424B2&dateFiled=2013-05-22>

PPL – March 2014

<http://app.quotemedia.com/data/downloadFiling?webmasterId=101533&ref=9449453&type=HTML&symbol=PPL&companyName=PPL+Corp.&formType=424B2&dateFiled=2014-03-06>

PPL – February 2015



<http://app.quotemedia.com/data/downloadFiling?webmasterId=101533&ref=10103763&type=HTML&symbol=PPL&companyName=PPL+Corp.&formType=424B5&dateFiled=2015-02-26&cik=0000922224>

PPL – May 2016

<http://app.quotemedia.com/data/downloadFiling?webmasterId=101533&ref=10939516&type=HTML&symbol=PPL&companyName=PPL+Corp&formType=424B2&dateFiled=2016-05-13&cik=0000922224>

Supplement, dated September 25, 2014 to Reoffering Circular dated December 11, 2008, as amended and restated as of June 25, 2013 (the “Reoffering Circular”)

**\$50,000,000**

**County of Carroll, Kentucky**

**Environmental Facilities Revenue Bonds, 2004 Series A**

**(Kentucky Utilities Company Project)**

Effective as of October 1, 2014, through September 26, 2017 (the Letter of Credit (as defined below) expiration date, subject to extension or earlier termination), payment of the principal of and interest on the above-referenced bonds (the “Bonds”) when due will be paid with funds drawn under an irrevocable transferable direct pay letter of credit (the “Letter of Credit”) issued by

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD., NEW YORK BRANCH

The Letter of Credit will permit the Trustee to draw with respect to the Bonds up to an amount sufficient to pay (i) the principal thereof (or that portion of the purchase price corresponding to principal) plus (ii) interest thereon (or that portion of the purchase price corresponding to interest) up to a maximum rate of 14% per annum for at least 45 days.

The Bonds will continue to bear interest at a Weekly Rate, determined by the Remarketing Agent, Merrill Lynch, Pierce, Fenner & Smith Incorporated, in accordance with the Indenture, payable on the first Business Day of each calendar month, commencing on November 1, 2014. The interest rate period, interest rate and Interest Rate Mode will be subject to change under certain conditions, as described in the Reoffering Circular. The Bonds are subject to optional redemption, extraordinary optional redemption, in whole or in part, and mandatory redemption following a determination of taxability prior to maturity, as described in the Reoffering Circular. The Bonds are subject to mandatory purchase on any date on which the Bonds are converted to a different Interest Rate Mode and upon the expiration of the Letter of Credit or any Alternate Credit Facility.

This supplement contains a description of the Letter of Credit and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, the issuer of the Letter of Credit. For purposes of the Reoffering Circular, the Letter of Credit is a “Credit Facility” and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch is a “Credit Facility Issuer.” Except as otherwise specified herein, information in the Reoffering Circular referred to above has not been amended or modified and the information contained herein is qualified by reference to, and should be read in conjunction with, the Reoffering Circular, including information incorporated therein by reference. Terms not otherwise defined herein shall have the meanings ascribed to them in such Reoffering Circular.

*The tenth paragraph under the section of the Reoffering Circular captioned “Introductory Statement” is hereby amended to read in its entirety as follows:*

Effective October 1, 2014, the Company will cause to be delivered an irrevocable transferable direct pay letter of credit (the “Letter of Credit”), issued by The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch (the “Bank”), to provide for the timely payment of principal of and accrued interest (calculated for at least 45 days at the maximum rate of 14% per annum) on, and purchase price of, the Bonds. The Company will be required to reimburse the Bank for all amounts drawn by the Trustee under the Letter of Credit pursuant to the terms of a certain Reimbursement Agreement, to be dated as of October 1, 2014 (the “Reimbursement Agreement”), between the Company and the Bank. The Letter of Credit will expire on September 26, 2017, unless extended or earlier terminated.

\* \* \* \*

*The section of the Reoffering Circular captioned “The Letter of Credit” is hereby amended to read in its entirety as follows:*

#### **THE LETTER OF CREDIT**

*The following summarizes certain provisions of the Letter of Credit and the Reimbursement Agreement, to which reference is made for the detailed provisions thereof. Unless otherwise defined in this Reoffering Circular, capitalized terms in the following summary are used as defined in the Letter of Credit and the Reimbursement Agreement. The Company is permitted under the Indenture to deliver an Alternate Credit Facility to replace the Letter of Credit. Any such Alternate Credit Facility must meet certain requirements described in the Indenture.*

#### **The Letter of Credit**

The Letter of Credit will be an irrevocable transferable direct pay letter of credit issued by the Bank in order to provide additional security for the payment of principal of, purchase

price of, interest on and premium, if applicable, on any date when payments under the Bonds are due, including principal and interest payments and payments upon tender, redemption, acceleration or maturity of the Bonds. The Letter of Credit will provide for direct payments to or upon the order of the Trustee as set forth in the Letter of Credit in amounts sufficient to pay such amounts in accordance with the terms thereof.

The Letter of Credit will be issued in an amount equal to the aggregate principal amount of the outstanding Bonds, plus an amount that represents interest accrued thereon at an assumed maximum rate of 14% per annum for 45 days (the "Credit Amount"). The Trustee, upon compliance with the terms of the Letter of Credit, is authorized to draw up to (a) an amount sufficient (i) to pay principal of the Bonds, when due, whether at maturity or upon redemption or acceleration, and (ii) to pay the portion of the purchase price of the Bonds delivered for purchase pursuant to a demand for purchase by the owner thereof or a mandatory tender for purchase and not remarketed (a "Liquidity Drawing") equal to the principal amount of the Bonds, plus (b) an amount not to exceed 45 days of accrued interest on the Bonds at an assumed rate of 14% per annum (i) to pay interest on the Bonds, when due, and (ii) to pay the portion of the interest accrued on the Bonds as of any Liquidity Drawing.

The amount available under the Letter of Credit will be automatically reduced by the amount of any drawing thereunder, subject to reinstatement as described below. With respect to a drawing by the Trustee solely to pay interest on the Bonds on an Interest Payment Date, the amount available under the Letter of Credit will be automatically reinstated in the amount of such drawing effective on the earlier of (i) receipt by the Bank from the Company of reimbursement of any drawing solely to pay interest in full or (ii) at the opening of business on the eleventh calendar day after the date the Bank honors such drawing, unless the Trustee has received written notice from the Bank by the tenth calendar day after the date the Bank honors such drawing that the Bank is not so reinstating the available amount due to the Company's failure to reimburse the Bank for such drawing in full, or that an event of default has occurred and is continuing under the \$198,309,583.05 Letter of Credit Agreement dated as of October 1, 2014 among the Company, the lenders from time to time thereto, and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as Administrative Agent (the "Credit Agreement") and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as Issuing Lender, and, in either case, directing an acceleration of the Bonds pursuant to the Indenture. With respect to a Liquidity Drawing under the Letter of Credit, the amount available under the Letter of Credit will be automatically reduced by the principal amount of the Bonds purchased with the proceeds of such drawing plus the amount of accrued interest on such Bonds. In the event of the remarketing of the Bonds purchased with the proceeds of a Liquidity Drawing, the amount available under the Letter of Credit will be automatically reinstated upon receipt by the Bank or the Trustee on the Bank's behalf of an amount equal to such principal amount plus accrued interest. The Letter of Credit will terminate on the earliest to occur of:

(i) the Bank's close of business on September 26, 2017 (such date, as extended from time to time in accordance with the Letter of Credit is defined as the "Stated Expiration Date");

(ii) the Bank's close of business on the date which is five Business Days following the date of receipt by the Bank of a certificate from the Trustee certifying that

(a) no Bonds remain Outstanding within the meaning of the Indenture, (b) all drawings required to be made under the Indenture and available under the Letter of Credit have been made and honored, (c) an Alternate Credit Facility has been delivered to the Trustee in accordance with the Indenture to replace the Letter of Credit or (d) all of the outstanding Bonds were converted to Bonds bearing interest at a rate other than the Daily Rate or the Weekly Rate;

(iii) the Bank's close of business on the date of receipt by the Bank of a certificate from the Trustee confirming that the Trustee is required to terminate the Letter of Credit in accordance with the terms of the Indenture;

(iv) the date on which the Bank receives and honors an acceleration drawing certificate; or

(v) the Bank's close of business on the date which is 30 days after receipt by the Trustee of written notice from the Bank of an Event of Default under the Credit Agreement and instructing the Trustee to draw under the Letter of Credit.

Pursuant to the Credit Agreement, the Company will be obligated to reimburse the Bank for all amounts drawn under the Letter of Credit, and to pay interest on all such amounts. The Company will also agree to pay the Bank and the Administrative Agent fees for issuing and maintaining the Letter of Credit.

### **The Reimbursement Agreement**

The Reimbursement Agreement, through incorporation of the terms of the Credit Agreement, will impose various covenants and agreements, including operating covenants and a financial covenant, on the Company. Such covenants include, but are not limited to, covenants relating to (i) inspection of the books and financial records of the Company; (ii) mergers or consolidations; (iii) disposition of assets and (iv) maintenance of a ratio of Consolidated Debt to Consolidated Capitalization (in each case as to be defined in the Credit Agreement) not to exceed 70%. Any such covenants may be amended, waived or modified at any time by the Bank and without the consent of the Trustee or the holders of the Bonds. Under certain circumstances, the failure of the Company to comply with such covenants may result in a mandatory tender or acceleration of the Bonds.

An Event of Default under the Credit Agreement will constitute an Event of Default under the Reimbursement Agreement. The following events will constitute an Event of Default under the Credit Agreement:

(i) the Company shall fail to pay when due any principal on any Reimbursement Obligations; or

(ii) the Company shall fail to pay when due any interest on the Reimbursement Obligations, any fee or any other amount payable under the Credit Agreement or under any other Loan Document for five (5) days following the date such payment becomes due thereunder; or



(iii) the Company shall fail to observe or perform certain covenants or agreements contained in the Credit Agreement, including those related to mergers, disposition of assets and capitalization; or

(iv) the Company shall fail to give notice of a Default or Event of Default under the Credit Agreement within a specified number of days following knowledge of such occurrence; or

(v) the Company shall fail to observe or perform any covenant or agreement contained in the Credit Agreement or any other Loan Document (other than those covered above) for thirty (30) days after written notice thereof has been given to the defaulting party by the administrative agent, or at the request of the required lenders; or

(vi) any representation, warranty or certification made by the Company in the Credit Agreement or any other Loan Document or in any certificate, financial statement or other document delivered pursuant hereto or thereto shall prove to have been incorrect in any material respect when made or deemed made; or

(vii) the Company shall (i) fail to pay any principal or interest, regardless of amount, due in respect of any Material Debt beyond any period of grace provided with respect thereto, or (ii) fail to observe or perform any other term, covenant, condition or agreement contained in any agreement or instrument evidencing or governing any such Material Debt beyond any period of grace provided with respect thereto if the effect of any failure referred to in this clause (ii) is to cause, or to permit the holder or holders of such Material Debt or a trustee on its or their behalf to cause, such Material Debt to become due prior to its stated maturity; or

(viii) the Company shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay, or shall admit in writing its inability to pay, its debts as they become due, or shall take any corporate action to authorize any of the foregoing; or

(ix) an involuntary case or other proceeding shall be commenced against the Company seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 days; or an order for relief shall be entered against the Company under the Bankruptcy Code; or

(x) any member of the ERISA Group shall fail to pay when due an amount or amounts aggregating in excess of \$50,000,000 which it shall have become liable to pay under Title IV of ERISA; or notice of intent to terminate a Material Plan shall be filed under Title IV of

ERISA by any member of the ERISA Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate, to impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or to cause a trustee to be appointed to administer any Material Plan; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Material Plan must be terminated; or there shall occur a complete or partial withdrawal from, or default, within the meaning of Section 4219(c)(5) of ERISA, with respect to, one or more Multiemployer Plans which could reasonably be expected to cause one or more members of the ERISA Group to incur a current payment obligation in excess of \$50,000,000; or

(xi) the Company shall fail within sixty (60) days to pay, bond or otherwise discharge any judgment or order for the payment of money in excess of \$20,000,000, entered against the Company that is not stayed on appeal or otherwise being appropriately contested in good faith; or

(xii) a Change of Control shall have occurred;

For purposes of the foregoing:

“Change of Control” means (i) the acquisition by any person, or two or more persons acting in concert, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended) of 25% or more of the outstanding shares of voting stock of PPL Corporation or its successors or (ii) the failure at any time of PPL Corporation or its successors to own 80% or more of the outstanding shares of the voting stock in the Company.

“Material Debt” means debt (other than debt under the Loan Documents) of the Company in a principal or face amount exceeding \$50,000,000.

*The section of the Reoffering Circular captioned “Continuing Disclosure” is hereby amended to read in its entirety as follows:*

### **Continuing Disclosure**

Because the Bonds are special and limited obligations of the Issuer, the Issuer is not an “obligated person” for purposes of Rule 15c2-12 (the “Rule”) promulgated by the SEC under the Exchange Act, and does not have any continuing obligations thereunder. Accordingly, the Issuer will not provide any continuing disclosure information with respect to the Bonds or the Issuer.

In order to enable the Remarketing Agent to comply with the requirements of the Rule, the Company has covenanted in a continuing disclosure undertaking agreement delivered to the Trustee for the benefit of the holders of the Bonds (the “Continuing Disclosure Agreement”) to provide certain continuing disclosure for the benefit of the holders of the Bonds. Under its Continuing Disclosure Agreement, the Company has covenanted to take the following actions:

(i) The Company will provide to each nationally recognized municipal securities information repository (“NRMSIR”), recognized by the SEC pursuant to the Rule, and the state information depository, if any, of the Commonwealth of Kentucky (a “SID” and, together with the NRMSIR, a “Repository”) recognized by the SEC (1) annual financial information of the type set forth in Appendix A to this Reoffering Circular (including any information incorporated by reference therein) and (2) audited financial statements prepared in accordance with generally accepted accounting principles, in each case not later than 120 days after the end of the Company’s fiscal year.

(ii) The Company will file in a timely manner with each NRMSIR or the Municipal Securities Rulemaking Board, and with the SID, if any, notice of the occurrence of any of the following events (if applicable) with respect to the Bonds, if material: (i) principal and interest payment delinquencies; (ii) non-payment related defaults; (iii) any unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancement facilities reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; (vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (vii) modifications to rights of the holders of the Bonds; (viii) the giving of notice of optional or unscheduled redemption of any Bonds; (ix) defeasance of the Bonds or any portion thereof; (x) release, substitution, or sale of property securing repayment of the Bonds; and (xi) rating changes with respect to the Bonds or the Company or any obligated person, within the meaning of the Rule.

(iii) The Company will file in a timely manner with each Repository notice of a failure by the Company to file any of the notices or reports referred to in paragraph (a) above by the due date.

The Company may amend its Continuing Disclosure Agreement (and the Trustee shall agree to any amendment so requested by the Company that does not change the duties of the Trustee thereunder) or waive any provision thereof, but only with a change in circumstances that arises from a change in legal requirements, change in law, or change in the nature or status of the Company with respect to the Bonds or the type of business conducted by the Company; provided

that the undertaking, as amended or following such waiver, would have complied with the requirements of the Rule on the date of issuance of the Bonds, after taking into account any amendments to the Rule as well as any change in circumstances, and the amendment or waiver does not materially impair the interests of the holders of the Bonds to which such undertaking relates, in the opinion of the Trustee or counsel expert in federal securities laws acceptable to both the Company and the Trustee, or is approved by the Beneficial Owners of a majority in aggregate principal amount of the outstanding Bonds. The Company acknowledges that its undertakings pursuant to the Rule described under this heading are intended to be for the benefit for the holders of the Bonds and shall be enforceable by the holders of those Bonds or by the Trustee on behalf of such holders. Any breach by the Company of these undertakings pursuant to the Rule will not constitute an event of default under the Indenture, the Loan Agreement or the Bonds.

*Appendix A of the Reoffering Circular is hereby amended to read in its entirety as follows:*

### **Kentucky Utilities Company**

Kentucky Utilities Company (“KU”), incorporated in Kentucky in 1912 and in Virginia in 1991, is a regulated utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. As of December 31, 2013, KU provides electric service to approximately 514,000 customers in 77 counties in central, southeastern and western Kentucky, to approximately 29,000 customers in 5 counties in southwestern Virginia and to less than 10 customers in Tennessee. Our service area covers approximately 4,800 noncontiguous square miles. Approximately 98% of the electricity generated by us is produced by our coal-fired electric generating stations. The remainder is generated by natural gas and oil fueled combustion turbines and a hydroelectric power plant. In Virginia, we operate under the name Old Dominion Power Company. We currently also sell wholesale electric energy to 12 municipalities in Kentucky under load following contracts. In April 2014, nine municipalities submitted notices of termination to cease taking power under the wholesale requirements contracts, such terminations to be effective in 2019, except in the case of one municipality with a 2017 effective date.

KU is a wholly-owned subsidiary of LG&E and KU Energy LLC and an indirect wholly-owned subsidiary of PPL Corporation. KU’s affiliate, Louisville Gas and Electric Company (“LG&E”), is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy and natural gas in Kentucky. KU’s obligations under the Loan Agreement are solely its own, and not those of any of its affiliates. None of LG&E, PPL Corporation or KU’s other affiliates will be obligated to make any payment on the Loan Agreement or the Bonds.

The information above concerning KU is only a summary and does not purport to be comprehensive. Additional information regarding KU, including audited financial statements, is available in the documents listed under the caption “Documents Incorporated by Reference,” which documents are incorporated by reference herein.

### **Risk Factors**

Investing in the Bonds involves risk. Please see the risk factors in KU’s Annual Report on Form 10-K for the year ended December 31, 2013, which is incorporated by reference in this Appendix A. Before making an investment decision, you should carefully consider these risks as well as the other information contained or incorporated by reference in this Appendix A. Risks and uncertainties not presently known to KU or that KU currently deems immaterial may also impair its business operations, its financial results and the value of the Bonds.

### **Available Information**

KU is subject to the information requirements of the Securities Exchange Act of 1934 and, accordingly, files reports, proxy statements and other information with the Securities and Exchange Commission (“SEC”). Such reports, proxy statements and other information, as well

as reports and other information regarding PPL, on file can be inspected and copied at the public reference facilities of the SEC, currently at Room 100 F Street, N.E., Room 1580, Washington, DC 20549; or from the SEC's Web Site (<http://www.sec.gov>). Please call the SEC at 1-800-SEC-0330 for further information on the public reference room.

### **Documents Incorporated By Reference**

The following documents, as filed by KU with the SEC, are incorporated herein by reference:

1. Form 10-K Annual Report of KU for the year ended December 31, 2013;
2. Form 10-Q Quarterly Reports of KU for the quarters ended March 31, 2014 and June 30, 2014; and
3. Form 8-K Current Report of KU filed with the SEC on August 13, 2014.

All documents filed by KU with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 subsequent to the date of this Supplement and prior to the termination of the offering of the Bonds shall be deemed to be incorporated by reference in this Appendix and to be made a part hereof from their respective dates of filing. Any statement contained in a document incorporated or deemed to be incorporated by reference in this Reoffering Circular shall be deemed to be modified or superseded for purposes of this Reoffering Circular to the extent that a statement contained in this Reoffering Circular or in any other subsequently filed document which also is or is deemed to be incorporated by reference in this Reoffering Circular modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Reoffering Circular.

**KU hereby undertakes to provide without charge to each person (including any beneficial owner) to whom a copy of this Reoffering Circular has been delivered, on the written or oral request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated in this Official Statement by reference, other than certain exhibits to such documents. Requests for such copies should be directed to Dan Arbough, Kentucky Utilities Company, One Quality Street, Lexington, Kentucky 40507, telephone: (859) 255-2100.**



*Appendix C of the Reoffering Circular is hereby amended to read in its entirety as follows:*

**The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch**

*The information under this heading has been provided solely by The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch and is believed to be reliable. This information has not been verified independently by the Company, the Issuer or the Remarketing Agent. The Company, the Issuer and the Remarketing Agent make no representation whatsoever as to the accuracy, adequacy or completeness of such information.*

**The Bank of Tokyo-Mitsubishi UFJ, Ltd.**

The Bank of Tokyo-Mitsubishi UFJ, Ltd. (“BTMU”), is a Japanese banking corporation with its head office in Tokyo, Japan. It is a wholly owned subsidiary of Mitsubishi UFJ Financial Group Inc. (the “Parent”). With 37,527 employees and approximately 839 branches worldwide (as of March 30, 2014), BTMU is Japan’s largest bank. BTMU also provides a wide range of banking and financial services worldwide, and is one of the largest banks in the world by deposits and loan portfolio. Mitsubishi UFJ Financial Group is one of the top 10 banks in the world as measured by assets and market capitalization.

As of March 31, 2014, BTMU and subsidiaries had total assets of approximately ¥201,615 billion (U.S. \$1,959 billion) and deposits of approximately ¥132,732 billion (U.S. \$1,290 billion). Net income for BTMU and subsidiaries for the Fiscal Year ended March 31, 2014, was approximately ¥754 billion (U.S. \$7.3 billion). These figures are extracted from The Annual Securities Report (Excerpt) for the Fiscal Year ended March 31, 2014, for BTMU and subsidiaries (the “Annual Securities Report”). The Annual Securities Report can be found at [www.bk.mufg.jp](http://www.bk.mufg.jp).

The financial information presented above was translated into U.S. dollars from the Japanese yen amounts set forth in the audited financial statements in the Annual Securities Report, which were prepared in accordance with the auditing standards generally accepted in Japan (“JGAAP”), and not in accordance with U.S. GAAP. The translations of the Japanese yen amounts into U.S. dollar amounts were included solely for the convenience of readers outside Japan, and were made at the rate of ¥102.92 to U.S. \$1, the approximate rate of exchange at March 31, 2014. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

The New York Branch of The Bank of Tokyo-Mitsubishi UFJ, Ltd. is licensed by the State of New York Department of Financial Services to conduct branch banking business at 1251 Avenue of the Americas, New York, New York, and is subject to examination by the State of New York Department of Financial Services, the Federal Reserve Bank of New York and the Federal Reserve Bank of San Francisco.

The Letter of Credit will be solely an obligation of BTMU, and will not be an obligation of, or otherwise guaranteed by, the Parent, and no assets of the Parent or any affiliate of BTMU or the Parent will be pledged to the payment thereof.

The information contained in this Appendix C, including financial information, relates to and has been obtained from BTMU, and is furnished solely to provide limited introductory information regarding BTMU, and does not purport to be comprehensive. Any financial information provided in this Appendix C is qualified in its entirety by the detailed information appearing in the Annual Securities Report referenced above. The delivery hereof shall not create any implication that there has been no change in the affairs of BTMU since March 31, 2014.

**NOT A NEW ISSUE****BOOK-ENTRY-ONLY**

On October 20, 2004, the date on which the Bonds were originally issued, Bond Counsel delivered its opinion that stated that, subject to the conditions and exceptions set forth under the caption "Tax Treatment," under then current law, interest on the Bonds would be excludable from the gross income of the recipients thereof for federal income tax purposes, except that no opinion was expressed regarding such exclusion from gross income with respect to any Bond during any period in which it is held by a "substantial user" or a "related person" of the Project as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Bonds will be an item of tax preference in determining alternative minimum taxable income for individuals and corporations under the Code. Such interest may be subject to certain federal income taxes imposed on certain corporations, including imposition of the branch profits tax on a portion of such interest. Bond Counsel was further of the opinion that interest on the Bonds would be excludable from the gross income of the recipients thereof for Kentucky income tax purposes and that, under then current law, the principal of the Bonds would be exempt from ad valorem taxes in Kentucky. Such opinion has not been updated as of the date hereof and no continuing tax exemption opinions are expressed by Bond Counsel. However, on December 17, 2008, in connection with the reoffering of the Bonds, Bond Counsel delivered its opinion to the effect that the delivery of a letter of credit (a) was authorized or permitted by the Act and the Indenture and (b) did not adversely affect the validity of the Bonds or any exclusion of the interest thereon from the gross income of the owners of the Bonds for federal income tax purposes. See "Tax Treatment" herein.

**\$50,000,000**  
**County of Carroll, Kentucky,**  
**Environmental Facilities Revenue Bonds,**  
**2004 Series A**  
**(Kentucky Utilities Company Project)**  
**Due: October 1, 2034**

The County of Carroll, Kentucky, Environmental Facilities Revenue Bonds, 2004 Series A (Kentucky Utilities Company Project) (the "Bonds") are special and limited obligations of the County of Carroll, Kentucky (the "Issuer"), payable by the Issuer solely from and secured by payments to be received by the Issuer pursuant to a Loan Agreement with Kentucky Utilities Company (the "Company"), except as payable from proceeds of such Bonds or investment earnings thereon. The Bonds do not constitute general obligations of the Issuer or a charge against the general credit or taxing powers thereof or of the Commonwealth of Kentucky or any other political subdivision of Kentucky. The Bonds will not be entitled to the benefits of any financial guaranty insurance policy. Principal of, and interest on, the Bonds are secured by the delivery to U.S. Bank National Association, as Trustee, of First Mortgage Bonds of

**KENTUCKY UTILITIES COMPANY**

The Bonds were originally issued on October 20, 2004 and currently bear interest at a Weekly Rate.

Effective July 1, 2013, the Letter of Credit (as defined below) expiration date with respect to such Bonds will be extended from April 22, 2014 to April 22, 2016. The issuer of such Letter of Credit is not being changed. Accordingly, through April 22, 2016, subject to extension or earlier termination, payment of the principal of and interest on the Bonds when due will be paid with funds drawn under an irrevocable transferable direct pay letter of credit (the "Letter of Credit") issued by

**Sumitomo Mitsui Banking Corporation, New York Branch**

The Letter of Credit permits the Trustee to draw with respect to the Bonds up to an amount sufficient to pay (i) the principal thereof (or that portion of the purchase price corresponding to principal) plus (ii) interest thereon (or that portion of the purchase price corresponding to interest) up to a maximum rate of 14% per annum for at least 45 days. For purposes of the Reoffering Circular, the Letter of Credit is a "Credit Facility" and Sumitomo Mitsui Banking Corporation, New York Branch is a "Credit Facility Issuer."

The Bonds will continue to bear interest at a Weekly Rate, determined by the Remarketing Agent, Merrill Lynch, Pierce, Fenner & Smith Incorporated, in accordance with the Indenture, payable on the first Business Day of each calendar month. The interest rate period, interest rate and Interest Rate Mode for the Bonds will be subject to change under certain conditions, as described in this Reoffering Circular. The Bonds are subject to optional redemption, extraordinary optional redemption, in whole or in part, and mandatory redemption following a determination of taxability prior to maturity, as described in this Reoffering Circular. The Bonds are subject to mandatory purchase on any date on which the Bonds are converted to a different Interest Rate Mode and upon the expiration of the Letter of Credit or any Alternate Credit Facility.

The Bonds are registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository. Except as described in this Reoffering Circular, purchases of beneficial ownership interests in the Bonds will be made in book-entry-only form in denominations of \$100,000 and multiples thereof. Purchasers will not receive certificates representing their beneficial interest in the Bonds. See the information contained under the caption "Summary of the Bonds—Book-Entry-Only System" in this Reoffering Circular. The principal of, premium, if any, and interest on the Bonds will be paid by U.S. Bank National Association, a national banking association, as successor Trustee, to Cede & Co., as long as Cede & Co. is the registered owner of the Bonds. Disbursement of such payments to the DTC Participants is the responsibility of DTC, and disbursement of such payments to the purchasers of beneficial ownership interests is the responsibility of DTC's Direct and Indirect Participants, as more fully described in this Reoffering Circular.

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**Price: 100%**

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**BofA Merrill Lynch**

No dealer, broker, salesman or other person has been authorized by the Issuer, the Company or the Remarketing Agent to give any information or to make any representation with respect to the Bonds, other than those contained in this Reoffering Circular, and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. The Remarketing Agent has provided the following sentence for inclusion in this Reoffering Circular. The Remarketing Agent has reviewed the information in this Reoffering Circular in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agent does not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Reoffering Circular nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the parties referred to above since the date hereof. The information set forth herein with respect to the Issuer has been obtained from the Issuer, and all other information has been obtained from the Company and from other sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Remarketing Agent.

In connection with the reoffering of the Bonds, the Remarketing Agent may over-allot or effect transactions which stabilize or maintain the market prices of the Bonds at levels above those that might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THE REOFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

TABLE OF CONTENTS

	Page
Introductory Statement.....	1
The Project.....	3
The Issuer.....	3
Summary of the Bonds.....	4
Security.....	29
The Letter of Credit.....	30
Summary of the Loan Agreement.....	34
Summary of the First Mortgage Bonds.....	39
Summary of the Indenture.....	53
Enforceability of Remedies.....	61
Reoffering.....	62
Tax Treatment.....	62
Legal Matters.....	64
Continuing Disclosure.....	64
Appendix A — Kentucky Utilities Company.....	A-1
Appendix B — Opinion of Bond Counsel and Reoffering Opinion of Bond Counsel.....	B-1
Appendix C — Sumitomo Mitsui Banking Corporation, New York Branch.....	C-1

**\$50,000,000**  
**County of Carroll, Kentucky**  
**Environmental Facilities Revenue Bonds,**  
**2004 Series A**  
**(Kentucky Utilities Company Project)**  
**Due: October 1, 2034**

**Introductory Statement**

This Reoffering Circular, including the cover page and appendices, is provided to furnish information in connection with the reoffering by the County of Carroll, Kentucky (the “Issuer”) of its Environmental Facilities Revenue Bonds, 2004 Series A (Kentucky Utilities Company Project), in the aggregate principal amount of \$50,000,000 (the “Bonds”) issued on October 20, 2004 pursuant to an Indenture of Trust dated as of October 1, 2004 (the “Indenture”) between the Issuer and U.S. Bank National Association, a national banking association (the “Trustee”), as successor Trustee, Paying Agent and Bond Registrar, as the same has been amended and restated as of September 1, 2008, and as further amended and supplemented pursuant to the Supplemental Indenture No. 1 to Amended and Restated Indenture of Trust dated as of September 1, 2010.

Pursuant to a Loan Agreement by and between Kentucky Utilities Company (the “Company”) and the Issuer, dated as of October 1, 2004 (the “Loan Agreement”) (as the same has been amended and restated as of September 1, 2008, and as further amended and supplemented pursuant to the Amendment No. 1 to the Amended and Restated Loan Agreement dated as of September 1, 2010), proceeds from the sale of the Bonds, other than accrued interest, if any, paid by the initial purchasers thereof, were loaned by the Issuer to the Company. The Loan Agreement is a separate undertaking by and between the Company and the Issuer.

The Company will continue to repay the loan under the Loan Agreement by making payments to the Trustee in sufficient amounts to pay the principal of and interest and any premium on, and purchase price of, the Bonds. See “Summary of the Loan Agreement — General.” Pursuant to the Indenture, the Issuer’s rights under the Loan Agreement (other than with respect to certain indemnification and expense payments and notification rights) were assigned to the Trustee as security for the Bonds.

For the purpose of further securing the Bonds, the Company has issued and delivered to the Trustee a separate tranche of the Company’s First Mortgage Bonds, Collateral Series 2010 (the “First Mortgage Bonds”). The principal amount, maturity date and interest rate (or method of determining interest rates) of such tranche of First Mortgage Bonds is identical to the principal amount, maturity date and interest rate (or method of determining interest rates) of the Bonds. The First Mortgage Bonds will only be payable, and interest thereon will only accrue, as described herein. See “Summary of the Loan Agreement — Issuance and Delivery of First Mortgage Bonds” and “Summary of the First Mortgage Bonds.” The First Mortgage Bonds will not provide a direct source of liquidity to pay the purchase price of Bonds tendered for purchase in accordance with the Indenture.

The First Mortgage Bonds have been issued under, and are secured by, an Indenture, dated as of October 1, 2010, as supplemented by a supplemental indenture dated as of October



15, 2010 relating to the Bonds (the “Supplemental Indenture”), (the Indenture, as so supplemented, the “First Mortgage Indenture”), between the Company and The Bank of New York Mellon, as trustee (the “First Mortgage Trustee”).

The proceeds of the Bonds were applied to pay and discharge \$50,000,000 in outstanding principal amount of “County of Carroll, Kentucky, Collateralized Solid Waste Disposal Facilities Revenue Bonds (Kentucky Utilities Company Project), 1993 Series A,” dated December 1, 1993 (the “1993 Bonds”), previously issued by the Issuer to finance certain solid waste disposal facilities (the “Project”) owned by the Company.

The Company currently is an operating subsidiary of LG&E and KU Energy LLC and PPL Corporation. Neither LG&E and KU Energy LLC nor PPL Corporation has any obligation to make any payments due under the Loan Agreement or First Mortgage Bonds or any other payments of principal, interest, premium or purchase price of the Bonds.

The Bonds currently bear interest at a Weekly Rate, but may be subsequently converted to bear interest at a Daily Rate, a Flexible Rate, a Semi-Annual Rate, an Annual Rate, a Long Term Rate or a Dutch Auction Rate. **This Reoffering Circular pertains only to the Bonds during such period of time that they bear interest at the Weekly Rate.**

The Bonds are special and limited obligations of the Issuer, and the Issuer’s obligation to pay the principal of and interest and any premium on, and purchase price of, the Bonds is limited solely to the revenues and other amounts received by the Trustee under the Indenture pursuant to the Loan Agreement and the Letter of Credit (as defined below). The Bonds do not constitute an indebtedness, general obligation or pledge of the faith and credit or taxing power of the Issuer, the Commonwealth of Kentucky or any political subdivision thereof. The Bonds are not entitled to the benefits of any financial guaranty insurance policies.

Effective May 2, 2011, the Company caused to be delivered an irrevocable transferable direct pay letter of credit (the “Letter of Credit”), issued by Sumitomo Mitsui Banking Corporation, New York Branch (the “Bank”), to provide for the timely payment of principal of and accrued interest (calculated for at least 45 days at the maximum rate of 14% per annum) on, and purchase price of, the Bonds. The Company is required to reimburse the Bank for all amounts drawn by the Trustee under the Letter of Credit pursuant to the terms of a certain Reimbursement Agreement, dated as of May 2, 2011 (the “Reimbursement Agreement”), between the Company and the Bank. The Letter of Credit will expire on April 22, 2016, unless extended or earlier terminated.

Upon expiration of the Letter of Credit or any Alternate Credit Facility, the Bonds will be subject to mandatory tender for purchase. See “Summary of the Bonds — Mandatory Purchases of Bonds — Mandatory Purchase upon Delivery, Cancellation, Substitution, Termination or Expiration of Any Credit Facility or Replacement with an Alternate Credit Facility.” As used in this Reoffering Circular, “Bank” or “Credit Facility Issuer” refers to the Bank as the issuer of the Letter of Credit and any other issuer of any Alternate Credit Facility delivered in accordance with the Indenture; “Letter of Credit” or “Credit Facility” means the Letter of Credit delivered under the Indenture and, as applicable, any Alternate Credit Facility which may be subsequently delivered in accordance with the Indenture; and “Reimbursement Agreement” refers to the initial

Reimbursement Agreement under which the Letter of Credit is provided and any subsequent agreement entered into between the Company and any other party in connection with the delivery of any Alternate Credit Facility.

Merrill Lynch, Pierce, Fenner & Smith Incorporated has been appointed under the Indenture to serve as Remarketing Agent for the Bonds. Any Remarketing Agent may resign or be removed and a successor Remarketing Agent may be appointed in accordance with the terms of the Indenture and the Remarketing Agreement for the Bonds between the Remarketing Agent and the Company.

Brief descriptions of the Company, the Issuer, the Bonds, the First Mortgage Bonds (including the Supplemental Indenture and the First Mortgage Indenture), the Loan Agreement, the Indenture, the Letter of Credit and the Reimbursement Agreement are included in this Reoffering Circular. Appendix A to this Reoffering Circular has been furnished by the Company. The Issuer and Bond Counsel assume no responsibility for the accuracy or completeness of such Appendix A or such information. Appendix B to this Reoffering Circular contains the opinion of Bond Counsel delivered on the date on which the Bonds were initially issued, and the opinion of Bond Counsel delivered in connection with the reoffering of the Bonds and the delivery of the Letter of Credit. Appendix C to this Reoffering Circular contains information about the Bank. The Issuer and Bond Counsel assume no responsibility for the accuracy or completeness of such Appendix C or such information. Such descriptions and information do not purport to be complete, comprehensive or definitive and are not to be construed as a representation or a guaranty of accuracy or completeness. All references herein to the documents are qualified in their entirety by reference to such documents, and references herein to the Bonds are qualified in their entirety by reference to the definitive form thereof included in the Indenture. Copies of the Loan Agreement, the Indenture, the Letter of Credit and the Reimbursement Agreement will be available for inspection at the principal corporate trust office of the Trustee. The First Mortgage Indenture is available for inspection at the office of the Company in Lexington, Kentucky, and at the corporate trust office of the First Mortgage Trustee in New York, New York. Certain information relating to The Depository Trust Company ("DTC") and the book-entry-only system has been furnished by DTC. All statements herein are qualified in their entirety by reference to each such document and, with respect to the enforceability of certain rights and remedies, to laws and principles of equity relating to or affecting generally the enforcement of creditors' rights.

### **The Project**

The Project has been completed, placed in operation, and is the property of the Company. The Project consists of certain solid waste disposal facilities at the Company's Ghent Generating Station located in Carroll County.

### **The Issuer**

The Issuer is a public body corporate and politic duly created and existing as a county and political subdivision under the Constitution and laws of the Commonwealth of Kentucky. The Issuer is authorized by Sections 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes (collectively, the "Act") to (a) reoffer the Bonds and (b) amend and restate and continue

to perform its obligations under the Loan Agreement and the Indenture. The Issuer, through its legislative body, the Fiscal Court, has adopted one or more ordinances authorizing the issuance of the Bonds and the execution and delivery of the related documents.

THE BONDS ARE SPECIAL AND LIMITED OBLIGATIONS PAYABLE SOLELY AND ONLY FROM CERTAIN SOURCES, INCLUDING AMOUNTS TO BE RECEIVED BY THE TRUSTEE FROM THE LETTER OF CREDIT AND BY OR ON BEHALF OF THE ISSUER UNDER THE LOAN AGREEMENT. THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS, GENERAL OBLIGATION OR PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE ISSUER, THE COMMONWEALTH OF KENTUCKY OR ANY POLITICAL SUBDIVISION THEREOF, AND DO NOT GIVE RISE TO A PECUNIARY LIABILITY OF THE ISSUER OR A CHARGE AGAINST ITS GENERAL CREDIT OR TAXING POWERS.

### Summary of the Bonds

#### General

The Bonds were issued in the aggregate principal amount set forth on the cover page of this Reoffering Circular and will mature on October 1, 2034. The Bonds are also subject to optional redemption, extraordinary optional redemption, in whole or in part, and mandatory redemption prior to maturity as described herein.

The Bonds will continue to bear interest at a Weekly Rate, and interest will be payable on the first Business Day of each calendar month, until a Conversion to another Interest Rate Mode is specified by the Company or until the redemption or maturity of the Bonds. The permitted Interest Rate Modes for the Bonds are (i) the “Flexible Rate,” (ii) the “Daily Rate,” (iii) the “Weekly Rate,” (iv) the “Semi-Annual Rate,” (v) the “Annual Rate,” (vi) the “Long Term Rate” and (vii) the “Dutch Auction Rate.” Changes in the Interest Rate Mode will be effected, and notice of such changes will be given, as described below in “— Conversion of Interest Rate Modes and Changes of Long Term Rate Periods.”

During each Rate Period for an Interest Rate Mode (other than a Dutch Auction Rate), the interest rate or rates for the Bonds in that Interest Rate Mode, and Flexible Rate Periods for Bonds accruing interest at a Flexible Rate, will be determined by the Remarketing Agent in accordance with the Indenture; provided that the interest rate or rates borne by any Bonds may not exceed the lesser of (i) the maximum interest rate permitted by applicable law or (ii) 14% per annum.

Interest on the Bonds which bear interest at a Flexible Rate, Daily Rate or Weekly Rate will be computed on the basis of a year of 365 or 366 days, as appropriate, and paid for the actual number of days elapsed. Interest on the Bonds which bear interest at a Semi-Annual Rate, Annual Rate or Long Term Rate will be computed on the basis of a 360-day year of twelve 30-day months. Interest on the Bonds which bear interest at a Dutch Auction Rate will be computed on the basis of a 360-day year for the actual number of days elapsed. Interest payable on any Interest Payment Date will be payable to the registered owner of the Bond as of the Record Date for such payment; provided that in the case of Bonds bearing interest at the Flexible Rate,

interest will be payable to the registered owner of such Bond on the Interest Payment Date therefor. The Record Date, in the case of interest accrued at a Daily Rate or Weekly Rate, will be the close of business on the Business Day immediately preceding each Interest Payment Date, in the case of interest accrued at a Dutch Auction Rate, will be the close of business on the second Business Day immediately preceding each Interest Payment Date, and in the case of interest accrued at a Semi-Annual Rate, Annual Rate or Long Term Rate, will be the close of business on the fifteenth day (whether or not a Business Day) of the month preceding each Interest Payment Date.

The Bonds initially will be issued solely in book-entry-only form through DTC (or its nominee, Cede & Co.). So long as the Bonds are held in the book-entry-only system, DTC or its nominee will be the registered owner or holder of the Bonds for all purposes of the Indenture, the Bonds and this Reoffering Circular. See “— Book-Entry-Only System” below. Individual purchases of book-entry interests in the Bonds will be made in book-entry-only form in (i) denominations of \$25,000 and integral multiples thereof, if bearing interest at the Dutch Auction Rate, (ii) denominations of \$100,000 or any integral multiple thereof, if bearing interest at the Daily Rate or the Weekly Rate, (iii) denominations of \$100,000 or any integral multiple of \$5,000 in excess of \$100,000, if bearing interest at Flexible Rates, or (iv) denominations of \$5,000 and integral multiples thereof, if bearing interest at the Semi-Annual Rate, the Annual Rate or the Long Term Rate.

Except as otherwise described below for Bonds held in DTC’s book-entry-only system, the principal or redemption price of the Bonds is payable at the designated corporate trust office in Nashville, Tennessee, of the Trustee, as paying agent (the “Paying Agent”). Except as otherwise described below for Bonds held in DTC’s book-entry-only system, interest on the Bonds is payable by check mailed to the owner of record; provided that interest payable on each Bond will be payable in immediately available funds by wire transfer within the continental United States or by deposit into a bank account maintained with the Paying Agent (i) if the Interest Rate Mode is the Daily Rate, the Weekly Rate, the Dutch Auction Rate or the Flexible Rate, or (ii) at the written request of any owner of record holding at least \$1,000,000 aggregate principal amount of the Bonds, if the Interest Rate Mode is the Semi-Annual Rate, Annual Rate or Long Term Rate, received by the Trustee, as bond registrar (the “Bond Registrar”), at least one Business Day prior to any Record Date. Except as otherwise described below for Bonds held in DTC’s book-entry-only system, if the Interest Rate Mode is the Flexible Rate, interest payable on each Bond will be paid only upon presentation and surrender of such Bond.

Bonds may be transferred or exchanged for an equal total amount of Bonds of other authorized denominations upon surrender of such Bonds at the principal office of the Bond Registrar, accompanied by a written instrument of transfer or authorization for exchange in form and with guaranty of signature satisfactory to the Bond Registrar, duly executed by the registered owner or the owner’s duly authorized attorney. Except as provided in the Indenture, the Bond Registrar will not be required to register the transfer or exchange of any Bond (i) during the fifteen days before any mailing of a notice of redemption of Bonds, (ii) after such Bond has been called for redemption or (iii) for which a registered owner has submitted a demand for purchase (see “— Purchases of Bonds on Demand of Owner” below), or which has been purchased (see “— Payment of Purchase Price” below). Registration of transfers and exchanges will be made without charge to the registered owners of Bonds, except that the Bond Registrar may require

any registered owner requesting registration of transfer or exchange to pay any required tax or governmental charge.

### **The Bonds Are Not Insured**

The Bonds described in this Reoffering Circular are not insured, and holders thereof will have no recourse to, under or against any bond insurance policy or bond insurer.

### **Tender Agent**

Owners may tender their Bonds, and in certain circumstances will be required to tender their Bonds, to the Tender Agent for purchase at the times and in the manner described below under “—Summary of Certain Provisions of the Bonds,” “— Purchases of Bonds on Demand of Owner” and “— Mandatory Purchases of Bonds.” So long as the Bonds are held in DTC’s book-entry-only system, the Trustee will act as Tender Agent under the Indenture. Any successor Tender Agent appointed pursuant to the Indenture will also be a Paying Agent.

### **Remarketing Agent**

Merrill Lynch, Pierce, Fenner & Smith Incorporated will act as the Remarketing Agent with respect to the Bonds (the “Remarketing Agent”). The Remarketing Agent may resign or be removed and a successor Remarketing Agent may be appointed in accordance with the terms of the Indenture and the Remarketing Agreement for the Bonds between the Remarketing Agent and the Company.

### **Special Considerations Relating to the Remarketing Agent**

*The Remarketing Agent is paid by the Company.*

The Remarketing Agent’s responsibilities include determining the interest rate from time to time and remarketing Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the Remarketing Agreement), all as further described herein. The Remarketing Agent is appointed by the Issuer at the request of the Company and paid by the Company for its services. As a result, the interests of the Remarketing Agent may differ from those of existing holders and potential purchasers of Bonds.

*The Remarketing Agent routinely purchases bonds for its own account.*

The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchases such obligations for its own account in order to achieve a successful remarketing of the obligations (i.e., because there are otherwise not enough buyers to purchase the obligations) or for other reasons. The Remarketing Agent is permitted, but not obligated, to purchase tendered Bonds for its own account and, if it does so, it may cease doing so at any time without notice. The Remarketing Agent may also make a market in the Bonds by routinely purchasing and selling Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in the Bonds. The Remarketing Agent may also sell any Bonds it has purchased to one or more affiliated

investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Bonds. The purchase of Bonds by the Remarketing Agent may create the appearance that there is greater third party demand for the Bonds in the market than is actually the case. The practices described above also may result in fewer Bonds being tendered in a remarketing.

*Bonds may be offered at different prices on any date.*

As more fully described under the caption “— Determination of Interest Rates for Interest Rate Modes,” the Remarketing Agent shall determine the minimum rate of interest per annum which in the opinion of the Remarketing Agent, would be necessary on and as of such day to remarket the Bonds in a secondary market transaction at a price equal to the principal amount thereof plus accrued interest thereon, if any, provided that such rate of interest shall not exceed 14% per annum. The interest rate will reflect, among other factors, the level of market demand for the Bonds (including whether the Remarketing Agent is willing to purchase Bonds for its own account). There may or may not be Bonds tendered and remarketed on a day that the rate on the Bonds are set, the Remarketing Agent may or may not be able to remarket any Bonds tendered for purchase on such date at par and the Remarketing Agent may sell Bonds at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Bonds at the remarketing price. In the event the Remarketing Agent owns any Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such Bonds on any date, including the day that the rate on the Bonds are set, at a discount to par to some investors.

*The ability to sell the Bonds other than through the tender process may be limited.*

**The Remarketing Agent may buy and sell Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender their Bonds to do so through the Trustee with appropriate notice. Thus, investors who purchase the Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Bonds other than by tendering the Bonds in accordance with the tender process.**

### **Certain Definitions**

As used herein, each of the following terms will have the meaning indicated. Certain capitalized terms used herein and not otherwise defined will have the meanings set forth in the Indenture.

“*Alternate Credit Facility*” means an irrevocable letter of credit, a municipal bond insurance policy, a surety bond, a line or lines of credit, a guarantee or other similar agreement or agreements or any other agreement or agreements used to provide liquidity or credit support for the Bonds, satisfactory to the Company and the Remarketing Agent and containing administrative provisions reasonably satisfactory to the Trustee, issued and delivered to the Trustee in accordance with the Indenture.



“*Annual Rate Period*” means the period beginning on, and including, the Conversion Date to the Annual Rate and ending on, and including, the day next preceding the second Interest Payment Date thereafter, and each successive twelve-month period (or portion thereof) thereafter until the day preceding the earlier of the Conversion to a different Interest Rate Mode or the maturity of the Bonds.

“*Beneficial Owner*” means the person in whose name a Bond is recorded as such upon the systems of DTC and each DTC Participant (as defined herein) or the registered holder of such Bond if such Bond is not then registered in the name of Cede & Co.

“*Business Day*” means any day other than a Saturday or Sunday or legal holiday or a day on which banking institutions located in the City of New York, New York, or the New York Stock Exchange or banking institutions in the city in which the principal office of the Trustee, the Bond Registrar, the Tender Agent, the Paying Agent, the Auction Agent, the Company, the Credit Facility Issuer or the Remarketing Agent is located are authorized by law or executive order to close.

“*Conversion*” means any conversion from time to time in accordance with the terms of the Indenture of the Bonds from one Interest Rate Mode to another Interest Rate Mode.

“*Conversion Date*” means the date on which any Conversion becomes effective.

“*Credit Facility*” means an irrevocable direct pay letter of credit or other credit enhancement or liquidity support facility, or any combination thereof, delivered to and in favor of the Trustee for the benefit of the owners of the Bonds pursuant to the Indenture and designated as a “Credit Facility” under the Indenture, and includes any Alternate Credit Facility delivered to the Trustee pursuant to the Indenture.

“*Credit Facility Issuer*” means the issuer of any Credit Facility or Alternate Credit Facility subsequently in effect.

“*Daily Rate Period*” means the period beginning on, and including, the Conversion Date to the Daily Rate and ending on and including the day preceding the next Business Day and each period thereafter beginning on and including a Business Day and ending on and including the day preceding the next succeeding Business Day until the day preceding the earlier of the Conversion to a different Interest Rate Mode or the maturity of the Bonds.

“*Dutch Auction Rate*” means the rate of interest to be borne by the Bonds during each Dutch Auction Rate Period determined in accordance with the Indenture.

“*Dutch Auction Rate Period*” means the period during which the Bonds bear interest at the Dutch Auction Rate.

“*Flexible Rate*” means the Interest Rate Mode for the Bonds in which the interest rate for each Bond is determined with respect to that Bond during each Flexible Rate Period applicable to that Bond, as provided in the Indenture.

“*Flexible Rate Period*” means with respect to any Bond, each period (which may be from one day to 364 days, or such lower maximum number of days as is then permitted under the Indenture) determined for such Bond, as provided in the Indenture.

“*Interest Payment Date*” means (i) if the Interest Rate Mode is the Daily Rate or the Weekly Rate, the first Business Day of each calendar month, (ii) if the Interest Rate Mode is the Flexible Rate, for each Bond the last day of each Flexible Rate Period for such Bond (or if such day is not a Business Day, the next succeeding Business Day), (iii) if the Interest Rate Mode is the Semi-Annual Rate, the Annual Rate or the Long Term Rate, April 1 and October 1, and, in the case of the Long Term Rate, the effective date of a change to a new Long Term Rate Period; (iv) if the Interest Rate Mode is the Dutch Auction Rate Mode, the dates determined in accordance with the terms of the Indenture; and (iv) any Conversion Date (including the date of a failed Conversion) or a change to a new Long Term Rate Period for such Bonds. In any case, the final Interest Payment Date will be the maturity date of the Bonds.

“*Interest Period*” means for all Bonds (or for any Bond if the Interest Rate Mode is the Flexible Rate) the period from and including each Interest Payment Date to and including the day immediately preceding the next Interest Payment Date, provided, however that the first Interest Period for the Bonds will begin on (and include) the date of issuance of the Bonds and the final Interest Period will end on September 30, 2034.

“*Interest Rate Mode*” means the Dutch Auction Rate, the Flexible Rate, the Daily Rate, the Weekly Rate, the Semi-Annual Rate, the Annual Rate and the Long Term Rate.

“*Long Term Rate Period*” means any period established by the Company as hereinafter set forth under “— Determination of Interest Rates for Interest Rate Modes — Long Term Rates and Long Term Rate Periods” and beginning on, and including, the Conversion Date to the Long Term Rate and ending on, and including, the day preceding the last Interest Payment Date for such period and, thereafter, each successive period of the same duration as the Long Term Rate Period previously established until the day preceding the earliest of the change to a different Long Term Rate Period, the Conversion to a different Interest Rate Mode or the maturity of the Bonds.

“*Prevailing Market Conditions*” means, without limitation, the following factors: existing short-term or long-term market rates for securities, the interest on which is excluded from gross income for federal income tax purposes; indexes of such short-term or long-term rates and the existing market supply and demand for securities bearing such short-term or long-term rates; existing yield curves for short-term or long-term securities for obligations of credit quality comparable to the Bonds, the interest on which is excluded from gross income for federal income tax purposes; general economic conditions; industry economic and financial conditions that may affect or be relevant to the Bonds; and such other facts, circumstances and conditions as the Remarketing Agent, in its sole discretion, determines to be relevant.

“*Purchase Date*” means any date on which Bonds are to be purchased on the demand of the registered owners thereof or are subject to mandatory purchase as described in the Indenture.

“*Reimbursement Agreement*” means a reimbursement agreement between the Company and the Credit Facility Issuer, as the same may be amended from time to time, and any other agreement between the Company and a Credit Facility Issuer, setting forth the obligations of the Company to such Credit Facility Issuer arising out of any payments under such Credit Facility and which provides that it will be deemed to be a Reimbursement Agreement for the purpose of the Indenture.

“*Semi-Annual Rate Period*” means the period beginning on, and including, the Conversion Date to the Semi-Annual Rate, and ending on, and including, the day preceding the first Interest Payment Date thereafter and each successive six-month period thereafter beginning on and including an Interest Payment Date and ending on and including the day next preceding the next Interest Payment Date until the day preceding the earlier of the Conversion to a different Interest Rate Mode or the maturity of the Bonds.

“*Weekly Rate Period*” means the period beginning on, and including, the Conversion Date to the Weekly Rate, and ending on, and including, the next Tuesday, and thereafter the period beginning on, and including, each Wednesday and ending on, and including, the earliest of the next Tuesday, the day preceding the Conversion to a different Interest Rate Mode or the maturity of the Bonds.

### **Summary of Certain Provisions of the Bonds**

The following table summarizes, for each of the permitted Interest Rate Modes (except the Dutch Auction Rate): the dates on which interest will be paid (*Interest Payment Dates*); the dates on which each interest rate will be determined (*Interest Rate Determination Dates*); the period of time (*Interest Rate Periods*) each interest rate will be in effect (provided that the initial Interest Rate Period for each Interest Rate Mode may begin on a different date from that specified, which date will be the Conversion Date or the date of a change in the Long Term Rate, as applicable); the dates on which registered owners may tender their Bonds for purchase to the Tender Agent and the notice requirements therefor (provided that while the Bonds are held in book-entry-only form, all notices of tender for purchase will be given by Beneficial Owners in the manner described under “— Purchases of Bonds on Demand of Owner — Notice Required for Purchases”) (*Purchase on Demand of Owner; Required Notice*); the dates on which the Bonds are subject to mandatory tender for purchase (*Mandatory Purchase Dates*); the redemption provisions applicable to the Bonds (*Redemption*); the notice requirements for redemption and mandatory tender for purchase (*Notices of Redemption and Mandatory Purchases*); and the manner by which registered owners will receive payments of principal, interest, redemption price and purchase price (*Manner of Payment*). All times stated are New York City time.

	<u>FLEXIBLE RATE</u>	<u>DAILY RATE</u>	<u>WEEKLY RATE</u>
<b>Interest Payment Dates</b>	With respect to any Bond, the last day of each Flexible Rate Period (or if such day is not a Business Day, the next succeeding Business Day).	The first Business Day of each calendar month.	The first Business Day of each calendar month.
<b>Interest Rate Determination Dates</b>	For each Bond, not later than 12:00 noon on the first day of each Flexible Rate Period for such Bond.	Not later than 9:30 a.m. on each Business Day.	Not later than 4:00 p.m. on the day preceding each Weekly Rate Period or, if not a Business Day, on the next preceding Business Day.
<b>Interest Rate Periods</b>	For each Bond, each Flexible Rate Period will be of a duration designated by the Remarketing Agent of one day to 364 days (or lower maximum number as specified in the Indenture); must end on a day immediately prior to a Business Day.	From and including each Business Day to but not including the next Business Day.	From and including each Wednesday to and including the following Tuesday.
<b>Purchase on Demand of Owner; Required Notice*</b>	No purchase on demand of the owner.	Any Business Day; by written or telephonic notice, promptly confirmed in writing, to the Tender Agent by 10:00 a.m. on such Business Day.	Any Business Day; by written notice to the Tender Agent not later than 5:00 p.m. on a Business Day at least seven days prior to the Purchase Date.
<b>Mandatory Purchase Dates</b>	Any Conversion Date; with respect to each Bond, on each Interest Payment Date for such Bond; and upon delivery, cancellation, substitution, termination or expiration of any Credit Facility or replacement with Alternate Credit Facility.	Any Conversion Date; and upon delivery, cancellation, substitution, termination or expiration of any Credit Facility or replacement with Alternate Credit Facility.	Any Conversion Date; and upon delivery, cancellation, substitution, termination or expiration of any Credit Facility or replacement with Alternate Credit Facility.
<b>Redemption</b>	Optional at par on any Interest Payment Date; Extraordinary Optional and Mandatory at par, on any Business Day (other than extraordinary optional	Optional, Extraordinary Optional and Mandatory at par on any Business Day.	Optional, Extraordinary Optional and Mandatory at par on any Business Day.

\* So long as DTC or its nominee is the registered owner of the Bonds, notices of redemption and mandatory purchases shall be sent to Cede & Co., payments of principal, redemption and purchase price of and interest on the Bonds will be paid through the facilities of DTC and notices of mandatory purchases may be given not less than five days prior to the Purchase Date. See “— Book-Entry-Only System” below.

	<u>FLEXIBLE RATE</u>	<u>DAILY RATE</u>	<u>WEEKLY RATE</u>
	redemption as a result of damage, destruction or condemnation which will be on an Interest Payment Date).		
<b>Notices of Conversion, Redemption and Mandatory Purchases *</b>	Not fewer than 15 days (30 days notice of Conversion to the Semi-Annual, Annual or Long Term Rate) or greater than 45 days. No notice of mandatory purchase following end of each Flexible Rate Period.	Not fewer than 15 days (30 days notice of Conversion to the Semi-Annual, Annual or Long Term Rate) or greater than 45 days.	Not fewer than 15 days (30 days notice of Conversion to the Semi-Annual, Annual or Long Term Rate) or greater than 45 days.
<b>Manner of Payment *</b>	Principal or redemption price upon surrender of the Bond to the Paying Agent; purchase price upon surrender of the Bond to the Tender Agent.	Principal or redemption price upon surrender of the Bond to the Paying Agent; purchase price upon surrender of the Bond to the Tender Agent.	Principal or redemption price upon surrender of the Bond to the Paying Agent; purchase price upon surrender of the Bond to the Tender Agent.
<b>Interest Payment Date</b>	Each April 1 and October 1.	Each April 1 and October 1.	Each April 1 and October 1; any Conversion Date; and the effective date of any change to a new Long Term Rate Period.
<b>Interest Rate Determination Dates</b>	Not later than 2:00 p.m. on the Business Day preceding the first day of the Semi-Annual Rate Period.	Not later than 12:00 noon on the Business Day preceding the first day of the Annual Rate Period.	Not later than 12:00 noon on the Business Day preceding the first day of the Long Term Rate Period.
<b>Interest Rate Periods</b>	Each six-month period from and including each April 1 and October 1 to and including the day preceding the next Interest Payment Date.	Each period from and including the Conversion Date to the Annual Rate to and including the day immediately preceding the second Interest Payment Date thereafter and each successive twelve month period thereafter.	Each period designated by the Company of more than one year in duration and which is an integral multiple of six months, from and including the first day of such period (April 1 and October 1) to and including the day immediately preceding the last Interest Payment Date for that period.
<b>Purchase on Demand of Owner; Required Notice*</b>	On any Interest Payment Date; by written notice to the Tender Agent on any Business Day not later than the fifteenth day prior to the	On the final Interest Payment Date for the Annual Rate Period; by written notice to the Tender Agent on any	On the final Interest Payment Date for the Long Term Rate Period; by written notice to the Tender Agent on a

\* So long as DTC or its nominee is the registered owner of the Bonds, notices of redemption and mandatory purchases shall be sent to Cede & Co., payments of principal, redemption and purchase price of and interest on the Bonds will be paid through the facilities of DTC and notices of mandatory purchase may be given not less than five days prior to the Purchase Date. See “— Book-Entry-Only System” below.

	<u>FLEXIBLE RATE</u>	<u>DAILY RATE</u>	<u>WEEKLY RATE</u>
	Purchase Date.	Business Day not later than the fifteenth day prior to the Purchase Date.	Business Day not later than the fifteenth day prior to the Purchase Date.
<b>Mandatory Purchase Dates</b>	Any Conversion Date; the first Business Day after the end of each Semi-Annual Rate Period; and upon delivery, cancellation, substitution, termination or expiration of any Credit Facility or replacement with Alternate Credit Facility.	Any Conversion Date; the first Business Day after the end of each Annual Rate Period; and upon delivery, cancellation, substitution, termination or expiration of any Credit Facility or replacement with Alternate Credit Facility.	Any Conversion Date; the first Business Day after the end of each Long Term Rate Period; the effective date of a change of Long Term Rate Period; and upon delivery, cancellation, substitution, termination or expiration of any Credit Facility or replacement with Alternate Credit Facility.
<b>Redemption</b>	Optional at par on any Interest Payment Date; Extraordinary Optional and Mandatory at par, on any Business Day (other than extraordinary optional redemption as a result of damage, destruction or condemnation which will be on an Interest Payment Date).	Optional at par on the final Interest Payment Date; Extraordinary Optional and Mandatory at par, on any Business Day.	Optional at times and prices dependent on the length of the Long Term Rate Period; Extraordinary Optional and Mandatory at par, on any Business Day.
<b>Notices of Conversion, Redemption and Mandatory Purchases*</b>	Not fewer than 15 days (30 days for notice of Conversion or redemption) or greater than 45 days.	Not fewer than 15 days (30 days for notice of Conversion or redemption) or greater than 45 days.	Not fewer than 15 days (30 days for notice of Conversion or redemption) or greater than 45 days.
<b>Manner of Payment*</b>	Principal or redemption price upon surrender of the Bond to the Paying Agent; interest by check mailed to the registered owners or, upon request of registered owner, of \$1,000,000 or more of an individual issue of Bonds, in immediately available funds; purchase price upon surrender of the Bond to the Tender Agent.	Principal or redemption price upon surrender of the Bond to the Paying Agent; interest by check mailed to the registered owners or, upon request of registered owner, of \$1,000,000 or more of an individual issue of Bonds, in immediately available funds; purchase price upon surrender of the Bond to the Tender Agent.	Principal or redemption price upon surrender of the Bond to the Paying Agent; interest by check mailed to the registered owners or, upon request of registered owner, of \$1,000,000 or more of an individual issue of Bonds, in immediately available funds; purchase price upon surrender of the Bond to the Tender Agent.

\* So long as DTC or its nominee is the registered owner of the Bonds, notices of redemption and mandatory purchases shall be sent to Cede & Co., payments of principal, redemption and purchase price of and interest on the Bonds will be paid through the facilities of DTC and notices of mandatory purchase may be given not less than five days prior to the Purchase Date. See “— Book -Entry-Only System” below.



## Determination of Interest Rates for Interest Rate Modes

Daily Rate. If the Interest Rate Mode for the Bonds is the Daily Rate, the interest rate on the Bonds for any Business Day will be the rate established by the Remarketing Agent no later than 9:30 a.m. (New York City time) on such Business Day as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell the Bonds on such Business Day at a price equal to the principal amount thereof, plus accrued interest, if any, thereon. For any day which is not a Business Day or if the Remarketing Agent does not give notice of a change in the interest rate, the interest rate on the Bonds will be the interest rate in effect for the immediately preceding Business Day.

Weekly Rate. If the Interest Rate Mode for the Bonds is the Weekly Rate, the interest rate on the Bonds for a particular Weekly Rate Period will be the rate established by the Remarketing Agent no later than 4:00 p.m. (New York City time) on the day preceding such Weekly Rate Period or, if such day is not a Business Day, on the next preceding Business Day, as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell the Bonds on such first day at a price equal to the principal amount thereof, plus accrued interest, if any, thereon.

Flexible Rates and Flexible Rate Periods. If the Interest Rate Mode for the Bonds is the Flexible Rate, the interest rate on a Bond for a specific Flexible Rate Period will be the rate established by the Remarketing Agent no later than 12:00 noon (New York City time) on the first day of that Flexible Rate Period as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell such Bond on that day at a price equal to the principal amount thereof. Each Flexible Rate Period applicable for a Bond will be determined separately by the Remarketing Agent on or prior to the first day of such Flexible Rate Period as being the Flexible Rate Period permitted under the Indenture which, in the judgment of the Remarketing Agent, taking into account then Prevailing Market Conditions, will, with respect to such Bond, ultimately produce the lowest overall interest cost on the Bonds while the Interest Rate Mode for the Bonds is the Flexible Rate. Each Flexible Rate Period will be from one day to 364 days in length and will end on a day preceding a Business Day. If the Remarketing Agent fails to set the length of a Flexible Rate Period for any Bond, a new Flexible Rate Period lasting to, but not including, the next Business Day (or until the earlier Conversion or maturity of the Bonds) will be established automatically in accordance with the Indenture.

Semi-Annual Rate. If the Interest Rate Mode for the Bonds is the Semi-Annual Rate, the interest rate on the Bonds for a particular Semi-Annual Rate Period will be the rate established by the Remarketing Agent no later than 2:00 p.m. (New York City time) on the Business Day immediately preceding the first day of such Semi-Annual Rate Period as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell the Bonds on such first day at a price equal to the principal amount thereof.

Annual Rate. If the Interest Rate Mode for the Bonds is the Annual Rate, the interest rate on the Bonds for a particular Annual Rate Period will be the rate of interest established by the Remarketing Agent no later than 12:00 noon (New York City time) on the Business Day preceding the first day of such Annual Rate Period as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell the Bonds on such first day at a price equal to the principal amount thereof.

Dutch Auction Rate. If the Interest Rate Mode for the Bonds is the Dutch Auction Rate, the interest rate on the Bonds for a particular Dutch Auction Rate Period will be the rate established in accordance with the procedures set forth in the Indenture.

Long Term Rates and Long Term Rate Periods. If the Interest Rate Mode for the Bonds is the Long Term Rate, the interest rate on the Bonds for a particular Long Term Rate Period will be the rate established by the Remarketing Agent no later than 12:00 noon (New York City time) on the Business Day preceding the first day of such Long Term Rate Period as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell the Bonds on such first day at a price equal to the principal amount thereof. The Company will establish the duration of the Long Term Rate Period at the time that it directs the Conversion of the Interest Rate Mode to the Long Term Rate, and thereafter each successive Long Term Rate Period will be the same as the Long Term Rate Period so established by the Company until a different Long Term Rate Period is specified by the Company in accordance with the Indenture (in which case the duration of that Long Term Rate Period will control succeeding Long Term Rate Periods), subject in all cases to the occurrence of a Conversion Date or the maturity of the Bonds. Each Long Term Rate Period will be more than one year in duration, will be for a period which is an integral multiple of six months and will end on the day next preceding an Interest Payment Date; provided that if a Long Term Rate Period commences on a date other than an April 1 or October 1, such Long Term Rate Period may be for a period which is not an integral multiple of six months but will be of a duration as close as possible to (but not in excess of) such Long Term Rate Period established by the Company and will terminate on a day preceding an Interest Payment Date, and each successive Long Term Rate Period thereafter will be for the full period established by the Company until a different Long Term Rate Period is specified by the Company in accordance with the Indenture or until the occurrence of a Conversion Date or the maturity of the Bonds; provided further that no Long Term Rate Period will extend beyond the final maturity date of the Bonds.

Failure to Determine Rate. If for any reason the interest rate for a Bond is not determined by the Remarketing Agent, except as described below under “— Conversion of Interest Rate Modes and Changes of Long Term Rate Periods — Change of Long Term Rate Period” and “— Cancellation of Conversion of Interest Rate Mode,” the interest rate for such Bond for the next succeeding interest rate period will be the interest rate in effect for such Bond for the preceding interest rate period and, pursuant to the terms of the Indenture, there will be no change in the then applicable Long Term Rate Period or any Conversion from the then applicable Interest Rate Mode. Notwithstanding the foregoing, if for any reason the interest rate for a Bond bearing interest at a Flexible Rate is not determined by the Remarketing Agent, the interest rate for such Bond for the next succeeding Interest Period will be equal to The Bond

Market Association Municipal Swap Index™ (the “Municipal Index”) as defined in the Indenture and the Interest Period for such Bond will extend through the day preceding the next Business Day, until the Trustee is notified of a new Flexible Rate and Flexible Rate Period determined for such Bond by the Remarketing Agent.

### **Conversion of Interest Rate Modes and Changes of Long Term Rate Periods**

Method of Conversion. The Interest Rate Mode for the Bonds is subject to Conversion from time to time, in whole but not in part, on the dates specified below under “— Limitations on Conversion,” at the option of the Company, upon notice from the Bond Registrar to the registered owners of the Bonds, as described below. With any notice of Conversion, the Company must also deliver to the Bond Registrar and the Credit Facility Issuer an opinion of Bond Counsel stating that such Conversion is authorized or permitted by the Act and is authorized by the Indenture and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes, other than a Conversion from the Daily Rate Period to the Weekly Rate Period or from the Weekly Rate Period to the Daily Rate Period.

Conditions Precedent to Conversions. The following conditions are applicable to Conversions of the Bonds:

(a) any Credit Facility to be held by the Trustee after the Conversion Date must be sufficient to cover the principal of and accrued interest on the outstanding Bonds for the maximum Interest Period permitted for that particular Interest Rate Mode plus 10 days at the maximum interest rate, and if a Credit Facility is to be held by the Trustee after the Conversion of the Bonds to a Long Term Rate Period, that Credit Facility must also extend for the entire Long Term Rate Period plus 10 days at the maximum interest rate; and

(b) if a Credit Facility is then in effect and the purchase price of the Bonds under the Indenture includes any premium, the Trustee will be entitled to draw on that Credit Facility in an aggregate amount sufficient to pay the applicable purchase price (including such premium) or, in the alternative, available moneys will be available in the necessary amount and are applied to the payment of such premium.

Limitations on Conversion. Any Conversion of the Interest Rate Mode for the Bonds must be in compliance with the following conditions: (i) the Conversion Date must be a date on which the Bonds are subject to optional redemption (see “— Redemptions — Optional Redemption” below); provided that any Conversion from the Daily Rate Period to a Weekly Rate Period or from the Weekly Rate Period to the Daily Rate Period must be on a Wednesday and, if the Conversion is to or from a Dutch Auction Rate Period, the Conversion Date must be the last Interest Payment Date in respect of that Dutch Auction Rate Period; (ii) if the proposed Conversion Date would not be an Interest Payment Date but for the Conversion, the Conversion Date must be a Business Day; (iii) if the Conversion is from the Flexible Rate, (a) the Conversion Date may be no earlier than the latest Interest Payment Date established prior to the giving of notice to the Remarketing Agent of such proposed Conversion and (b) no further Interest Payment Date may be established while the Interest Rate Mode is then the Flexible Rate if such Interest Payment Date would occur after the effective date of that Conversion; and (iv)

after a determination is made requiring mandatory redemption of all Bonds pursuant to the Indenture (see “— Redemptions” below), no change in the Interest Rate Mode may be made prior to such mandatory redemption.

Change of Long Term Rate Period. The Company may change from one Long Term Rate Period to another Long Term Rate Period on any Business Day on which the Bonds are subject to optional redemption as described under “— Redemptions — Optional Redemption” below upon notice from the Bond Registrar to the owners of Bonds as described below. With any notice of such change, the Company must also deliver an opinion of Bond Counsel stating that such change is authorized or permitted by the Act and is authorized by the Indenture and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. Notwithstanding the foregoing, the Long Term Rate Period will not be changed to a new Long Term Rate Period if (A) the Remarketing Agent has not determined the interest rate for the new Long Term Rate Period in accordance with the terms of the Indenture or (B) the Bond Registrar receives written notice from Bond Counsel prior to the effective date of the change to the effect that the opinion of such Bond Counsel required under the Indenture has been rescinded. Upon the occurrence of any of the events described in the preceding sentence, the Bonds will bear interest at the Weekly Rate commencing on the date which would have been the effective date of the proposed change of Long Term Rate Period, subject to the provisions described below under “— Cancellation of Conversion of Interest Rate Mode.”

Notice to Owners of Conversion of Interest Rate Mode or of Change of Long Term Rate Period. The Bond Registrar will notify each registered owner of the Conversion or change of Long Term Rate Period, as applicable, by first class mail at least 15 days (30 days in the case of Conversion from or to the Semi-Annual Rate, the Annual Rate or a Long Term Rate or in the case of a change in the Long Term Rate Period) but not more than 45 days before each Conversion Date or each effective date of a change in the Long Term Rate Period. The notice will state those matters required to be set forth therein under the Indenture.

Cancellation of Conversion of Interest Rate Mode. Notwithstanding the foregoing, no Conversion will occur if (A) the Remarketing Agent has not determined the initial interest rate for the new Interest Rate Mode in accordance with the terms of the Indenture, (B) the Bonds that are to be purchased are not remarketed or sold by the Remarketing Agent or (C) the Bond Registrar receives written notice from Bond Counsel prior to the opening of business on the effective date of Conversion to the effect that the opinion of such Bond Counsel required under the Indenture has been rescinded. If such Conversion fails to occur, such Bonds in the Dutch Auction Rate will remain in such Interest Rate Mode and Bonds in any other Interest Rate Mode will automatically be converted to the Weekly Rate (with the first period adjusted in length so that the last day of such period will be a Tuesday) at the rate determined by the Remarketing Agent on the failed Conversion Date; provided, that there must be delivered to the Issuer, the Trustee, the Tender Agent, the Company, the Credit Facility Issuer and the Remarketing Agent an opinion of Bond Counsel to the effect that determining the interest rate to be borne by the Bonds at a Weekly Rate is authorized or permitted by the Act and is authorized under the Indenture and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. If such opinion is not delivered on the failed Conversion Date, the Bonds will bear interest for a Rate Period of the same type and of substantially the same length as the Rate Period in effect prior to the failed Conversion Date at a rate of interest

determined by the Remarketing Agent on the failed Conversion Date (or if shorter, the Rate Period ending on the date before the maturity date); provided that if the Bonds then bear interest at the Long Term Rate, and if such opinion is not delivered on the date which would have been the effective date of a new Long Term Rate Period, the Bonds will bear interest at the Annual Rate, commencing on such date, at an Annual Rate determined by the Remarketing Agent on such date. If the proposed Conversion of Bonds fails as described herein, any mandatory purchase of such Bonds will remain effective.

#### **Purchases of Bonds on Demand of Owner**

If the Bonds are in the book-entry-only system, demands for purchase may be made by Beneficial Owners only through such Beneficial Owner's Direct Participant (as defined under the caption "—Book-Entry-Only System"). If the Bonds are in certificated form, demands for purchase may be made only by registered owners. When the Interest Rate Mode is the Dutch Auction Rate, the Bonds are not subject to purchase on demand of the owners thereof.

Daily Rate. If the Interest Rate Mode for the Bonds is the Daily Rate, any Bond will be purchased on the demand of the registered owner thereof on any Business Day during a Daily Rate Period at a purchase price equal to the principal amount thereof plus accrued interest, if any, to the Purchase Date upon written notice or telephonic notice (to be immediately confirmed in writing) to the Tender Agent at its principal office not later than 10:00 a.m. (New York City time) on such Business Day.

Weekly Rate. If the Interest Rate Mode for the Bonds is the Weekly Rate, any Bond will be purchased on the demand of the registered owner thereof on any Business Day during a Weekly Rate Period at a purchase price equal to the principal amount thereof plus accrued interest, if any, to the Purchase Date upon written notice to the Tender Agent at its principal office at or before 5:00 p.m. (New York City time) on a Business Day not later than the seventh day prior to the Purchase Date.

Semi-Annual Rate. If the Interest Rate Mode for the Bonds is the Semi-Annual Rate, any Bond will be purchased on the demand of the registered owner thereof on any Interest Payment Date for a Semi-Annual Rate Period at a purchase price equal to the principal amount thereof upon written notice to the Tender Agent at its principal office on a Business Day not later than the fifteenth day prior to such Purchase Date.

Annual Rate. If the Interest Rate Mode for the Bonds is the Annual Rate, any Bond will be purchased on the demand of the registered owner thereof on the final Interest Payment Date for such Annual Rate Period at a purchase price equal to the principal amount thereof upon written notice to the Tender Agent at its principal office on a Business Day not later than the fifteenth day prior to such Purchase Date.

Long Term Rate. If the Interest Rate Mode for the Bonds is the Long Term Rate, any Bond will be purchased on the demand of the registered owner thereof on the final Interest Payment Date for such Long Term Rate Period (unless such date is the final maturity date) at a purchase price equal to the principal amount thereof upon written notice to the Tender Agent at its principal office on a Business Day not later than the fifteenth day prior to such Purchase Date.

Limitations on Purchases on Demand of Owner. Notwithstanding the foregoing, there will be no purchase of (a) a portion of any Bond unless the portion to be purchased and the portion to be retained each will be in an authorized denomination or (b) any Bond upon the demand of the registered owner if an Event of Default under the Indenture with respect to the payment of principal of, interest on, or purchase price of, the Bonds has occurred and is continuing. Also, if the Interest Rate Mode for the Bonds is the Flexible Rate, the Bonds will not be subject to purchase on the demand of the registered owners thereof, but each Bond will be subject to mandatory purchase on each Conversion Date and on the Interest Payment Date with respect to such Bond, as described below under the caption “— Mandatory Purchases of Bonds.”

Notice Required for Purchases. Any written notice delivered to the Tender Agent by an owner demanding the purchase of Bonds must (A) be delivered by the time and dates specified above, (B) state the number and principal amount (or portion thereof) of such Bond to be purchased, (C) state the Purchase Date on which such Bond is to be purchased, (D) irrevocably request such purchase and state that the owner agrees to deliver such Bond, duly endorsed in blank for transfer, with all signatures guaranteed, to the Tender Agent at or prior to 11:00 a.m. (1:00 p.m. if a tender during a Daily Rate Period and 12:00 noon if a tender during a Weekly Rate Period) (New York City time) on such Purchase Date.

### **Mandatory Purchases of Bonds**

Mandatory Purchase on Conversion Dates or Change by the Company in Long Term Rate Period. The Bonds will be subject to mandatory purchase at a purchase price equal to the principal amount thereof, plus accrued interest, if any, to the Purchase Date, plus, if the Interest Rate Mode is the Long Term Rate, the redemption premium, if any, which would be payable as described under “— Redemptions — Optional Redemption” below, if the Bonds were redeemed (A) on the Purchase Date, (B) on each Conversion Date and (C) on the effective date of any change by the Company of the Long Term Rate Period. Such tender and purchase will be required even if the change in Long Term Rate Period or the Conversion is canceled pursuant to the Indenture.

Mandatory Purchase on Each Interest Payment Date for Flexible Rate Period. Whenever the Interest Rate Mode for the Bonds is the Flexible Rate, each Bond will be subject to mandatory purchase at a purchase price equal to the principal amount thereof, without premium, plus accrued interest, if any, to the Purchase Date, on each Interest Payment Date that interest on such Bond is payable at an interest rate determined for the Flexible Rate. Owners of Bonds will receive no notice of such mandatory purchase.

Mandatory Purchase on Day after End of the Semi-Annual Rate Period, the Annual Rate Period or the Long Term Rate Period. Whenever the Interest Rate Mode for the Bonds is the Semi-Annual Rate, the Annual Rate or the Long Term Rate, such Bonds will be subject to mandatory purchase on the Business Day following the end of each Semi-Annual Rate Period, Annual Rate Period or Long Term Rate Period, as the case may be, for such Bond at a purchase price equal to the principal amount thereof plus accrued interest, if any, to such date.

Mandatory Purchase upon Delivery, Cancellation, Substitution, Termination or Expiration of Any Credit Facility or Replacement with an Alternate Credit Facility. The Bonds



will be subject to mandatory tender for purchase at a purchase price equal to 100% of the principal amount thereof, plus accrued interest, if any, (A) on the Interest Payment Date at least five days prior to the date of the cancellation of or the expiration of the term of the then current Credit Facility and (B) on the Interest Payment Date on which a Credit Facility is replaced with an Alternate Credit Facility.

*Notice to Owners of Mandatory Purchases.* Notice to owners of a mandatory purchase of Bonds (except for mandatory purchase on each Interest Payment Date for Flexible Rate Periods) will be given by the Bond Registrar, by first class mail at least 15 days but not more than 45 days before the Purchase Date; provided, however, as an alternative to the foregoing, if DTC or its nominee is the registered owner of the Bonds, notice may be given to DTC not less than five days before the Purchase Date. The notice of mandatory purchase will state those matters required to be set forth therein under the Indenture. No notice of mandatory purchase will be given in connection with a mandatory purchase on an Interest Payment Date for a Flexible Rate Period.

### **Remarketing and Purchase of Bonds**

The Indenture provides that, subject to the terms of a Remarketing Agreement with the Company, the Remarketing Agent will use its reasonable best efforts to offer for sale Bonds purchased upon demand of the owners thereof and, unless otherwise instructed by the Company and with the consent of any Credit Facility Issuer, upon mandatory purchase, provided that Bonds will not be remarketed upon the occurrence and continuance of certain Events of Default under the Indenture, except in the sole discretion of the Remarketing Agent. Each such sale will be at a price equal to the principal amount thereof, plus interest accrued to the date of sale. The Remarketing Agent, the Trustee, the Paying Agent, the Bond Registrar or the Tender Agent each may purchase any Bonds offered for sale for its own account.

On each date Bonds are to be purchased pursuant to optional or mandatory purchase under the Indenture, such Bonds will be purchased from the following sources in the order of priority indicated, provided that funds derived from clause (c) may not be combined with the funds derived from clauses (a) or (b) to purchase any Bonds:

(a) proceeds of the remarketing of such Bonds to persons other than the Company, its affiliates or the Issuer and furnished to the Tender Agent by the Remarketing Agent and deposited directly into, and held in, the Remarketing Proceeds Subaccount of the Purchase Fund established with the Tender Agent under the Indenture;

(b) proceeds of the Credit Facility, if any, furnished by the Trustee, as Tender Agent, and deposited by the Tender Agent directly into, and held in, the Credit Facility Subaccount of the Purchase Fund; and

(c) moneys paid by the Company (including the proceeds of the remarketing of the Bonds to the Company, its affiliates or the Issuer) to pay the purchase price to the Tender Agent.

If there is no Credit Facility in operation to secure the Bonds, any Bonds will be purchased with any moneys made available by the Company, including proceeds from the remarketing of the Bonds.

### **Payment of Purchase Price**

When a book-entry-only system is not in effect, payment of the purchase price of any Bond will be payable (and delivery of a replacement Bond in exchange for the portion of any Bond not purchased if such Bond is purchased in part will be made) on the Purchase Date upon delivery of such Bond to the Tender Agent on such Purchase Date; provided that such Bond must be delivered to the Tender Agent: (i) at or prior to 12:00 noon (New York City time), in the case of Bonds delivered for purchase during a Weekly Rate Period or Flexible Rate Period, (ii) at or prior to 1:00 p.m. (New York City time), in the case of Bonds delivered for purchase during a Daily Rate Period or (iii) at or prior to 11:00 a.m. (New York City time), in the case of Bonds delivered for purchase during a Semi-Annual Rate Period, Annual Rate Period or Long Term Rate Period. If the date of such purchase is not a Business Day, the purchase price will be payable on the next succeeding Business Day.

Any Bond delivered for payment of the purchase price must be accompanied by an instrument of transfer thereof in form satisfactory to the Tender Agent executed in blank by the registered owner thereof and with all signatures guaranteed. The Tender Agent may refuse to accept delivery of any Bond for which an instrument of transfer satisfactory to it has not been provided and has no obligation to pay the purchase price of such Bond until a satisfactory instrument is delivered.

If the registered owner of any Bond (or portion thereof) that is subject to purchase pursuant to the Indenture fails to deliver such Bond with an appropriate instrument of transfer to the Tender Agent for purchase on the Purchase Date, and if the Tender Agent is in receipt of the purchase price therefor, such Bond (or portion thereof) nevertheless will be deemed purchased on the Purchase Date thereof. Any owner who so fails to deliver such Bond for purchase on (or before) the Purchase Date will have no further rights thereunder, except the right to receive the purchase price thereof from those moneys deposited with the Tender Agent in the Purchase Fund pursuant to the Indenture upon presentation and surrender of such Bond to the Tender Agent properly endorsed for transfer in blank with all signatures guaranteed.

When a book-entry-only system is in effect, the requirement for physical delivery of the Bonds will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on the records of DTC to the participant account of the Tender Agent.

### **Redemptions**

#### Optional Redemption.

(a) Whenever the Interest Rate Mode for the Bonds is the Daily Rate or the Weekly Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof, plus interest accrued, if any, to the redemption date, on any Business Day.

(b) Whenever the Interest Rate Mode for a Bond is the Flexible Rate, such Bond will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof on any Interest Payment Date for that Bond.

(c) Whenever the Interest Rate Mode for the Bonds is the Dutch Auction Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, on the Business Day immediately succeeding any auction date, at a redemption price of 100% of the principal amount thereof, together with accrued interest to the redemption date.

(d) Whenever the Interest Rate Mode for the Bonds is the Semi-Annual Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof on any Interest Payment Date.

(e) Whenever the Interest Rate Mode for the Bonds is the Annual Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof on the final Interest Payment Date for each Annual Rate Period.

(f) Whenever the Interest Rate Mode for the Bonds is the Long Term Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, (1) on the final Interest Payment Date for the then-current Long Term Rate Period at a redemption price of 100% of the principal amount thereof and (2) prior to the end of the then-current Long Term Rate Period at any time during the redemption periods and at the redemption prices set forth below, plus in each case interest accrued, if any, to the redemption date:

<b>Original Length of Current Long Term Rate Period (Years)</b>	<b>Commencement of Redemption Period</b>	<b>Redemption Price as Percentage of Principal</b>
More than or equal to 11 years	First Interest Payment Date on or after the tenth anniversary of commencement of Long Term Rate Period	100%
Less than 11 years	Non-callable	Non-callable

Subject to certain conditions, including provision of an opinion of Bond Counsel that a change in the redemption provisions of the Bonds will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes, the redemption periods and redemption prices may be revised, effective as of the Conversion Date, the date of a change in the Long Term Rate Period or a Purchase Date on the final Interest Payment Date during a Long Term Rate Period, to reflect Prevailing Market Conditions on such date as determined by the Remarketing Agent in its judgment.

Extraordinary Optional Redemption in Whole. The Bonds may be redeemed by the Issuer in whole at any time at 100% of the principal amount thereof plus accrued interest to the redemption date upon the exercise by the Company of an option under the Loan Agreement to prepay the loan if any of the following events shall have occurred within 180 days preceding the giving of written notice by the Company to the Trustee of such election:

(i) if in the judgment of the Company, unreasonable burdens or excessive liabilities have been imposed upon the Company after the issuance of the Bonds with respect to the Project or the operation thereof, including without limitation federal, state or other ad valorem property, income or other taxes not imposed on the date of the Loan Agreement, other than ad valorem taxes levied upon privately owned property used for the same general purpose as the Project;

(ii) if the Project or a portion thereof or other property of the Company in connection with which the Project is used has been damaged or destroyed to such an extent so as, in the judgment of the Company, to render the Project or such other property of the Company in connection with which the Project is used unsatisfactory to the Company for its intended use, and such condition continues for a period of six months;

(iii) there has occurred condemnation of all or substantially all of the Project or the taking by eminent domain of such use or control of the Project or other property of the Company in connection with which the Project is used so as, in the judgment of the Company, to render the Project or such other property of the Company unsatisfactory to the Company for its intended use;

(iv) in the event changes, which the Company cannot reasonably control, in the economic availability of materials, supplies, labor, equipment or other properties or things necessary for the efficient operation of the generating station where the Project is located have occurred, which, in the judgment of the Company, render the continued operation of such generating station or any generating unit at such station uneconomical; or changes in circumstances after the issuance of the Bonds, including but not limited to changes in solid waste abatement, control and disposal requirements, have occurred such that the Company determines that use of the Project is no longer required or desirable;

(v) the Loan Agreement has become void or unenforceable or impossible of performance by reason of any changes in the Constitution of the Commonwealth of Kentucky or the Constitution of the United States of America or by reason of legislative or administrative action (whether state or federal) or any final decree, judgment or order of any court or administrative body, whether state or federal; or

(vi) a final order or decree of any court or administrative body after the issuance of the Bonds requires the Company to cease a substantial part of its operation at the generating station where the Project is located to such extent that the Company will be prevented from carrying on its normal operations at such generating station for a period of six months.

Extraordinary Optional Redemption in Whole or in Part. The Bonds are also subject to redemption in whole or in part at 100% of the principal amount thereof plus accrued interest to the redemption date at the option of the Company in an amount not to exceed the net proceeds received from insurance or any condemnation award received by the Issuer or the Company in the event of damage, destruction or condemnation of all or a portion of the Project, subject to receipt of an opinion of Bond Counsel that such redemption will not adversely affect the exclusion of interest on any of the Bonds from gross income for federal income tax purposes, and such net proceeds must be applied to reimburse the Credit Facility Issuer for drawings under the Credit Facility to redeem the Bonds. See “Summary of the Loan Agreement — Maintenance; Damage, Destruction and Condemnation.” Such redemption may occur at any time, provided that if such event occurs while the Interest Rate Mode for the Bonds is the Daily Rate, Weekly Rate, Flexible Rate or Semi-Annual Rate, such redemption must occur on a date on which the Bonds are otherwise subject to optional redemption as described above.

Mandatory Redemption; Determination of Taxability. The Bonds are required to be redeemed by the Issuer, in whole, or in such part as described below, at a redemption price equal to 100% of the principal amount thereof, without redemption premium, plus accrued interest, if any, to the redemption date, within 180 days following a “Determination of Taxability.” As used herein, a “Determination of Taxability” means the receipt by the Trustee of written notice from a current or former registered owner of a Bond or from the Company or the Issuer of (A) the issuance of a published or private ruling or a technical advice memorandum by the Internal Revenue Service in which the Company participated or has been given the opportunity to participate, and which ruling or memorandum the Company, in its discretion, does not contest or from which no further right of administrative or judicial review or appeal exists, or (B) a final determination from which no further right of appeal exists of any court of competent jurisdiction in the United States in a proceeding in which the Company has participated or has been a party, or has been given the opportunity to participate or be a party, in each case, to the effect that as a result of a failure by the Company to perform or observe any covenant or agreement or the inaccuracy of any representation contained in the Loan Agreement or any other agreement or certificate delivered in connection with the Bonds, the interest on the Bonds is included in the gross income of the owners thereof for federal income tax purposes, other than with respect to a person who is a “substantial user” or a “related person” of a substantial user within the meaning of the Section 147 of Internal Revenue Code of 1986, as amended (the “Code”); provided, however, that no such Determination of Taxability shall be considered to exist as a result of the Trustee receiving notice from a current or former registered owner of a Bond or from the Issuer unless (A) the Issuer or the registered owner or former registered owner of the Bond involved in such proceeding or action (1) gives the Company and the Trustee prompt notice of the commencement thereof, and (2) (if the Company agrees to pay all expenses in connection therewith) offers the Company the opportunity to control unconditionally the defense thereof, and (B) either (1) the Company does not agree within 30 days of receipt of such offer to pay such expenses and liabilities and to control such defense, or (2) the Company shall exhaust or choose not to exhaust all available proceedings for the contest, review, appeal or rehearing of such decree, judgment or action which the Company determines to be appropriate. No Determination of Taxability described above will result from the inclusion of interest on any Bond in the computation of minimum or indirect taxes. All of the Bonds are required to be redeemed upon a Determination of Taxability as described above unless, in the opinion of Bond Counsel, redemption of a portion of such Bonds would have the result that interest payable on the

remaining Bonds outstanding after the redemption would not be so included in any such gross income.

In the event any of the Issuer, the Company or the Trustee has been put on notice or becomes aware of the existence or pendency of any inquiry, audit or other proceedings relating to the Bonds being conducted by the Internal Revenue Service, the party so put on notice is required to give immediate written notice to the other parties of such matters. Promptly upon learning of the occurrence of a Determination of Taxability (whether or not the same is being contested), or any of the events described above, the Company is required to give notice thereof to the Trustee and the Issuer.

If the Internal Revenue Service or a court of competent jurisdiction determines that the interest paid or to be paid on any Bond (except to a “substantial user” of the Project or a “related person” within the meaning of Section 147(a) of the Code) is or was includable in the gross income of the recipient for federal income tax purposes for reasons other than as a result of a failure by the Company to perform or observe any of its covenants, agreements or representations in the Loan Agreement or any other agreement or certificate delivered in connection therewith, the Bonds are not subject to redemption. In such circumstances, Bondholders would continue to hold their Bonds, receiving principal and interest at the applicable rate as and when due, but would be required to include such interest payments in gross income for federal income tax purposes. Also, if the lien of the Indenture is discharged or defeased prior to the occurrence of a final Determination of Taxability, Bonds will not be redeemed as described herein.

*General Redemption Terms.* So long as a Credit Facility is in effect in respect of the Bonds, the redemption price (including accrued interest) will be paid from drawings under such Credit Facility or from moneys which otherwise constitute Available Moneys under the Indenture. Notice of redemption will be given by mailing a redemption notice by first class mail to the registered owners of the Bonds to be redeemed not less than 30 days (15 days if the Interest Rate Mode for the Bonds is the Dutch Auction Rate, Flexible Rate, Daily Rate or Weekly Rate) but not more than 45 days prior to the redemption date. Any notice mailed as provided in the Indenture will be conclusively presumed to have been given, irrespective of whether the owner receives the notice. Failure to give any such notice by mailing or any defect therein in respect of any Bond will not affect the validity of any proceedings for the redemption of any other Bond. No further interest will accrue on the principal of any Bond called for redemption after the redemption date if funds sufficient for such redemption have been deposited with the Paying Agent as of the redemption date. If the provisions for discharging the Indenture set forth below under the caption, “Summary of the Indenture — Discharge of the Indenture” have not been complied with, any redemption notice will state that it is conditional on there being sufficient moneys to pay the full redemption price for the Bonds to be redeemed. So long as the Bonds are held in book-entry-only form, all redemption notices will be sent only to Cede & Co.



## Book-Entry-Only System

*Portions of the following information concerning DTC and DTC's book-entry-only system have been obtained from DTC. The Issuer, the Company and the Remarketing Agent make no representation as to the accuracy of such information.*

Initially, DTC will act as securities depository for the Bonds and the Bonds initially will be issued solely in book-entry-only form to be held under DTC's book-entry-only system, registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered bond in the aggregate principal amount of the Bonds will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934 (the "Exchange Act"). DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants" and, together with "Direct Participants," "Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the SEC. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct or Indirect Participants acting on behalf of Beneficial Owners.

Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Issuer or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, the Company or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Tender Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the

Tender Agent. The requirement for physical delivery of Bonds in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Tender Agent's DTC account.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Issuer, the Company, the Tender Agent and the Trustee, or the Issuer, at the request of the Company, may remove DTC as the securities depository for the Bonds. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be delivered as described in the Indenture (see "— Revision of Book-Entry-Only System; Replacement Bonds" below). The Beneficial Owner, upon registration of certificates held in the Beneficial Owner's name, will become the registered owner of the Bonds.

So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the registered owners of the Bonds will mean Cede & Co. and will not mean the Beneficial Owners. Under the Indenture, payments made by the Trustee to DTC or its nominee will satisfy the Issuer's obligations under the Indenture, the Company's obligations under the Loan Agreement, to the extent of the payments so made. Beneficial Owners will not be, and will not be considered by the Issuer or the Trustee to be, and will not have any rights as, owners of Bonds under the Indenture.

The Trustee and the Issuer, so long as a book-entry-only system is used for the Bonds, will send any notice of redemption or of proposed document amendments requiring consent of registered owners and any other notices required by the document (including notices of Conversion and mandatory purchase) to be sent to registered owners only to DTC (or any successor securities depository) or its nominee. Any failure of DTC to advise any Direct Participant, or of any Direct Participant or Indirect Participant to notify the Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Bonds called for redemption, the document amendment, the Conversion, the mandatory purchase or any other action premised on that notice.

The Issuer, the Company, the Trustee and the Remarketing Agent cannot and do not give any assurances that DTC will distribute payments on the Bonds made to DTC or its nominee as the registered owner or any redemption or other notices, to the Participants, or that the Participants or others will distribute such payments or notices to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will serve and act in the manner described in this Reoffering Circular.

THE ISSUER, THE COMPANY, THE REMARKETING AGENT AND THE TRUSTEE WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE TRUSTEE AS BEING A REGISTERED OWNER WITH RESPECT TO: (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (2) THE PAYMENT OF ANY AMOUNT DUE BY DTC TO ANY DIRECT PARTICIPANT OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO

ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OR REDEMPTION OR PURCHASE PRICE OF OR INTEREST ON THE BONDS; (3) THE DELIVERY OF ANY NOTICE BY DTC TO ANY DIRECT PARTICIPANT OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED TO BE GIVEN TO REGISTERED OWNERS UNDER THE TERMS OF THE INDENTURE; (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS REGISTERED OWNER.

*Revision of Book-Entry-Only System; Replacement Bonds.* In the event that DTC determines not to continue as securities depository or is removed by the Issuer, at the direction of the Company, as securities depository, the Issuer, at the direction of the Company, may appoint a successor securities depository reasonably acceptable to the Trustee. If the Issuer does not or is unable to appoint a successor securities depository, the Issuer will issue and the Trustee will authenticate and deliver fully registered Bonds, in authorized denominations, to the assignees of DTC or their nominees.

In the event that the book-entry-only system is discontinued, the following provisions will apply. The Bonds may be issued in denominations of \$25,000 and integral multiples thereof, if the Interest Rate Mode is the Dutch Auction Rate; in denominations of \$5,000 and integral multiples thereof, if the Interest Rate Mode is the Semi-Annual Rate, the Annual Rate or the Long Term Rate; in denominations of \$100,000 and integral multiples of \$5,000 in excess thereof, if the Interest Rate Mode is the Flexible Rate; and in denominations of \$100,000 and integral multiples thereof, if the Interest Rate Mode is the Daily Rate or the Weekly Rate. Bonds may be transferred or exchanged for an equal total amount of Bonds of other authorized denominations upon surrender of such Bonds at the principal office of the Bond Registrar, accompanied by a written instrument of transfer or authorization for exchange in form and with guaranty of signature satisfactory to the Bond Registrar, duly executed by the registered owner or the owner's duly authorized attorney. Except as provided in the Indenture, the Bond Registrar will not be required to register the transfer or exchange of any Bond during the fifteen days before any mailing of a notice of redemption, after such Bond has been called for redemption in whole or in part, or after such Bond has been tendered or deemed tendered for optional or mandatory purchase as described under "— Purchases of Bonds on Demand of Owner" and "— Mandatory Purchases of Bonds." Registration of transfers and exchanges will be made without charge to the owners of Bonds, except that the Bond Registrar may require any owner requesting registration of transfer or exchange to pay any required tax or governmental charge.

### Security

Payment of the principal of and interest and any premium on the Bonds is secured by an assignment by the Issuer to the Trustee of the Issuer's interest in and to the Loan Agreement and all payments to be made pursuant thereto (other than certain indemnification and expense payments). Pursuant to the Loan Agreement, the Company has agreed to pay, among other things, amounts sufficient to pay the aggregate principal amount of and premium, if any, on the Bonds, together with interest thereon as and when the same become due. The Company further

will agree to make payments of the purchase price of the Bonds tendered for purchase to the extent that funds are not otherwise available therefor under the provisions of the Indenture.

The payment of the principal of and interest and any premium on the Bonds is further secured by a separate tranche of the Company's First Mortgage Bonds, Collateral Series 2010 (the "First Mortgage Bonds") issued under an Indenture, dated as of October 1, 2010, as supplemented (the "First Mortgage Indenture"), between the Company and The Bank of New York Mellon, as trustee (the "First Mortgage Trustee"). The principal amount of the First Mortgage Bonds equals the principal amount of the Bonds. If the Bonds become immediately due and payable as a result of a default in payment of the principal of, premium, if any, or interest on the Bonds, or a default in payment of the purchase price of such Bonds, due to an event of default under the Loan Agreement and upon receipt by the First Mortgage Trustee of a written demand from the Trustee for redemption of the First Mortgage Bonds, or if all first mortgage bonds outstanding under the First Mortgage Indenture shall have been immediately due and payable, such First Mortgage Bonds will bear interest at the same interest rate or rates borne by the Bonds and the principal of such First Mortgage Bonds, together with interest accrued thereon from the last date or dates to which interest on the Bonds has been paid in full, will be payable in accordance with the Supplemental Indenture. See "Summary of the First Mortgage Bonds."

The First Mortgage Bonds are not intended to provide a direct source of liquidity to pay the purchase price of Bonds tendered for purchase in accordance with the Indenture. The First Mortgage Bonds are secured by a lien on certain property owned by the Company. In certain circumstances, the Company is permitted to reduce the aggregate principal amount of its First Mortgage Bonds held by the Trustee, but in no event to an amount lower than the aggregate outstanding principal amount of the Bonds.

### **The Letter of Credit**

*The following summarizes certain provisions of the Letter of Credit and the Reimbursement Agreement, to which reference is made for the detailed provisions thereof. Unless otherwise defined in this Reoffering Circular, capitalized terms in the following summary are used as defined in the Letter of Credit and the Reimbursement Agreement. The Company is permitted under the Indenture to deliver an Alternate Credit Facility to replace the Letter of Credit. Any such Alternate Credit Facility must meet certain requirements described in the Indenture.*

### **The Letter of Credit**

The Letter of Credit is an irrevocable transferable direct pay letter of credit issued by the Bank in order to provide additional security for the payment of principal of, purchase price of, interest on and premium, if applicable, on any date when payments under the Bonds are due, including principal and interest payments and payments upon tender, redemption, acceleration or maturity of the Bonds. The Letter of Credit provides for direct payments to or upon the order of

the Trustee as set forth in the Letter of Credit in amounts sufficient to pay such amounts in accordance with the terms thereof.

The Letter of Credit has been issued in an amount equal to the aggregate principal amount of the outstanding Bonds, plus an amount that represents interest accrued thereon at an assumed maximum rate of 14% per annum for 45 days (the "Credit Amount"). The Trustee, upon compliance with the terms of the Letter of Credit, is authorized to draw up to (a) an amount sufficient (i) to pay principal of the Bonds, when due, whether at maturity or upon redemption or acceleration, and (ii) to pay the portion of the purchase price of the Bonds delivered for purchase pursuant to a demand for purchase by the owner thereof or a mandatory tender for purchase and not remarketed (a "Liquidity Drawing") equal to the principal amount of the Bonds, plus (b) an amount not to exceed 45 days of accrued interest on the Bonds at an assumed rate of 14% per annum (i) to pay interest on the Bonds, when due, and (ii) to pay the portion of the interest accrued on the Bonds as of any Liquidity Drawing.

The amount available under the Letter of Credit will be automatically reduced by the amount of any drawing thereunder, subject to reinstatement as described below. With respect to a drawing by the Trustee solely to pay interest on the Bonds on an Interest Payment Date, the amount available under the Letter of Credit will be automatically reinstated in the amount of such drawing effective on the earlier of (i) receipt by the Bank from the Company of reimbursement of any drawing solely to pay interest in full or (ii) at the opening of business on the eleventh calendar day after the date the Bank honors such drawing, unless the Trustee has received written notice from the Bank by the tenth calendar day after the date the Bank honors such drawing that the Bank is not so reinstating the available amount due to the Company's failure to reimburse the Bank for such drawing in full, or that an event of default has occurred and is continuing under the \$198,309,583.05 Amended and Restated Letter of Credit Agreement dated as of August 16, 2012 as amended pursuant to Amendment No. 1 dated as of May 1, 2013 and Amendment No. 2 dated as of May 1, 2013 among the Company, the lenders from time to time thereto, and Sumitomo Mitsui Banking Corporation, New York Branch, (successor to Banco Bilboa Vizcaya Argentaria, S.A., New York Branch), as Administrative Agent (the "Credit Agreement") and Sumitomo Mitsui Banking Corporation, New York Branch, as Issuing Lender, and, in either case, directing an acceleration of the Bonds pursuant to the Indenture. With respect to a Liquidity Drawing under the Letter of Credit, the amount available under the Letter of Credit will be automatically reduced by the principal amount of the Bonds purchased with the proceeds of such drawing plus the amount of accrued interest on such Bonds. In the event of the remarketing of the Bonds purchased with the proceeds of a Liquidity Drawing, the amount available under the Letter of Credit will be automatically reinstated upon receipt by the Bank or the Trustee on the Bank's behalf of an amount equal to such principal amount plus accrued interest.

The Letter of Credit will terminate on the earliest to occur of:

- (i) the Bank's close of business on April 22, 2016 (such date, as extended from time to time in accordance with the Letter of Credit is defined as the "Stated Expiration Date");



(ii) the Bank's close of business on the date which is five Business Days following the date of receipt by the Bank of a certificate from the Trustee certifying that (a) no Bonds remain Outstanding within the meaning of the Indenture, (b) all drawings required to be made under the Indenture and available under the Letter of Credit have been made and honored, (c) an Alternate Credit Facility has been delivered to the Trustee in accordance with the Indenture to replace the Letter of Credit or (d) all of the outstanding Bonds were converted to Bonds bearing interest at a rate other than the Daily Rate or the Weekly Rate;

(iii) the Bank's close of business on the date of receipt by the Bank of a certificate from the Trustee confirming that the Trustee is required to terminate the Letter of Credit in accordance with the terms of the Indenture;

(iv) the date on which the Bank receives and honors an acceleration drawing certificate; or

(v) the Bank's close of business on the date which is 30 days after receipt by the Trustee of written notice from the Bank of an Event of Default under the Credit Agreement and instructing the Trustee to draw under the Letter of Credit.

Pursuant to the Credit Agreement, the Company is obligated to reimburse the Bank for all amounts drawn under the Letter of Credit, and to pay interest on all such amounts. The Company has also agreed to pay the Bank and the Administrative Agent fees for issuing and maintaining the Letter of Credit.

### **The Reimbursement Agreement**

The Reimbursement Agreement, through incorporation of the terms of the Credit Agreement, imposes various covenants and agreements, including various financial and operating covenants, on the Company. Such covenants include, but are not limited to, covenants relating to (i) inspection of the books and financial records of the Company; (ii) mergers or consolidations; (iii) disposition of assets and (iv) capitalization ratios. Any such covenants may be amended, waived or modified at any time by the Bank and without the consent of the Trustee or the holders of the Bonds. Under certain circumstances, the failure of the Company to comply with such covenants may result in a mandatory tender or acceleration of the Bonds.

An Event of Default under the Credit Agreement constitutes an Event of Default under the Reimbursement Agreement. The following events constitute an Event of Default under the Credit Agreement:

(i) the Company shall fail to pay when due any principal on any Reimbursement Obligations; or

(ii) the Company shall fail to pay when due any interest on the Reimbursement Obligations, any fee or any other amount payable under the Credit Agreement or under any other Loan Document for five (5) days following the date such payment becomes due thereunder; or

(iii) the Company shall fail to observe or perform certain covenants or agreements contained in the Credit Agreement, including those related to mergers, disposition of assets and capitalization ratios; or

(iv) the Company shall fail to give notice of a Default or Event of Default under the Credit Agreement within a specified number of days following knowledge of such occurrence; or

(v) the Company shall fail to observe or perform any covenant or agreement contained in the Credit Agreement or any other Loan Document (other than those covered above) for thirty (30) days after written notice thereof has been given to the defaulting party by the administrative agent, or at the request of the required lenders; or

(vi) any representation, warranty or certification made by the Company in the Credit Agreement or any other Loan Document or in any certificate, financial statement or other document delivered pursuant hereto or thereto shall prove to have been incorrect in any material respect when made or deemed made; or

(vii) the Company shall (i) fail to pay any principal or interest, regardless of amount, due in respect of any Material Debt beyond any period of grace provided with respect thereto, or (ii) fail to observe or perform any other term, covenant, condition or agreement contained in any agreement or instrument evidencing or governing any such Material Debt beyond any period of grace provided with respect thereto if the effect of any failure referred to in this clause (ii) is to cause, or to permit the holder or holders of such Material Debt or a trustee on its or their behalf to cause, such Material Debt to become due prior to its stated maturity; or

(viii) the Company shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay, or shall admit in writing its inability to pay, its debts as they become due, or shall take any corporate action to authorize any of the foregoing; or

(ix) an involuntary case or other proceeding shall be commenced against the Company seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 days; or an order for relief shall be entered against the Company under the Bankruptcy Code; or

(x) any member of the ERISA Group shall fail to pay when due an amount or amounts aggregating in excess of \$50,000,000 which it shall have become liable to pay under Title IV of ERISA; or notice of intent to terminate a Material Plan shall be filed under Title IV of

ERISA by any member of the ERISA Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate, to impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or to cause a trustee to be appointed to administer any Material Plan; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Material Plan must be terminated; or there shall occur a complete or partial withdrawal from, or default, within the meaning of Section 4219(c)(5) of ERISA, with respect to, one or more Multiemployer Plans which could reasonably be expected to cause one or more members of the ERISA Group to incur a current payment obligation in excess of \$50,000,000; or

(xi) the Company shall fail within sixty (60) days to pay, bond or otherwise discharge any judgment or order for the payment of money in excess of \$20,000,000, entered against the Company that is not stayed on appeal or otherwise being appropriately contested in good faith; or

(xii) a Change of Control shall have occurred;

For purposes of the foregoing:

“Change of Control” means (i) the acquisition by any person, or two or more persons acting in concert, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended) of 25% or more of the outstanding shares of voting stock of PPL Corporation or its successors or (ii) the failure at any time of PPL Corporation or its successors to own 80% or more of the outstanding shares of the voting stock in the Company.

“Material Debt” means debt (other than debt under the Loan Documents) of the Company in a principal or face amount exceeding \$50,000,000

### **Summary of the Loan Agreement**

*The following, in addition to the provisions contained elsewhere in this Reoffering Circular, is a brief description of certain provisions of the Loan Agreement. This description is only a summary and does not purport to be complete and definitive. Reference is made to the Loan Agreement for the detailed provisions thereof.*

#### **General**

The Loan Agreement initially commenced as of its initial date and is amended and restated as of September 1, 2008 and is further amended and supplemented pursuant to the Amendment No. 1 dated as of September 1, 2010, and will end on the earliest to occur of October 1, 2034, or the date on which all of the Bonds shall have been fully paid or provision has been made for such payment pursuant to the Indenture. See “Summary of the Indenture — Discharge of Indenture.”

The Company has agreed to repay the loan pursuant to the Loan Agreement by making timely payments to the Trustee in sufficient amounts to pay the principal of, premium, if any, and interest required to be paid on the Bonds on each date upon which any such payments are due. The Company has also agreed to pay (a) the agreed upon fees and expenses of the Trustee, the Bond Registrar, any Tender Agent and any Paying Agent appointed under the Indenture, (b) the expenses in connection with any redemption of the Bonds and (c) the reasonable expenses of the Issuer.

The Company covenants and agrees with the Issuer that it will cause the purchase of tendered Bonds that are not remarketed in accordance with the Indenture and, to that end, the Company shall cause funds to be made available to the Tender Agent at the times and in the manner required to effect such purchases in accordance with the Indenture; provided, however, that the obligation of the Company to make any such payment will be reduced by the amount of (A) moneys paid by the Remarketing Agent as proceeds of the remarketing of such Bonds by the Remarketing Agent, (B) moneys drawn under a Credit Facility, if any, for the purpose of paying such purchase price and (C) other moneys made available by the Company (see “Summary of the Bonds — Remarketing and Purchase of Bonds”).

All payments to be made by the Company to the Issuer pursuant to the Loan Agreement (except the reasonable out-of-pocket expenses of the Issuer, the Trustee, the Paying Agent, the Bond Registrar, the Tender Agent and amounts related to indemnification) have been assigned by the Issuer to the Trustee, and the Company will pay such amounts directly to the Trustee. The obligations of the Company to make the payments pursuant to the Loan Agreement are absolute and unconditional.

### **Maintenance of Tax Exemption**

The Company and the Issuer have agreed not to take any action that would result in the interest paid on the Bonds being included in gross income of any Bondholder (other than a holder who is a “substantial user” of the Project or a “related person” within the meaning of Section 147(a) of the Code) for federal income tax purposes or that adversely affects the validity of the Bonds.

### **Issuance and Delivery of First Mortgage Bonds**

For the purpose of providing security for the Bonds, the Company has executed and delivered to the Trustee the First Mortgage Bonds. The principal amount of the First Mortgage Bonds executed and delivered to the Trustee equals the aggregate principal amount of the Bonds. If the Bonds become immediately due and payable as a result of a default in payment of the principal of, premium, if any, or interest on the Bonds, or a default in payment of the purchase price of such Bonds, due to an event of default under the Loan Agreement and upon receipt by the First Mortgage Trustee of a written demand from the Trustee for redemption of the First Mortgage Bonds, or if all first mortgage bonds outstanding under the First Mortgage Indenture shall have been immediately due and payable, such First Mortgage Bonds will bear interest at the same interest rate or rates borne by the Bonds and the principal of such First Mortgage Bonds, together with interest accrued thereon from the last date to which interest on the Bonds shall

have been paid in full, will then be payable. See, however, "Summary of the Indenture — Waiver of Events of Default."

Upon payment of the principal of, premium, if any, and interest on any of the Bonds, and the surrender to and cancellation thereof by the Trustee, or upon provision for the payment thereof having been made in accordance with the Indenture, First Mortgage Bonds with corresponding principal amounts equal to the aggregate principal amount of the Bonds so surrendered and canceled or for the payment of which provision has been made, will be surrendered by the Trustee to the First Mortgage Trustee and will be canceled by the First Mortgage Trustee. The First Mortgage Bonds will be registered in the name of the Trustee and will be non transferable, except to effect transfers to any successor trustee under the Indenture.

### **Payment of Taxes**

The Company has agreed to pay certain taxes and other governmental charges that may be lawfully assessed, levied or charged against or with respect to the Project (see, however, subparagraph (i) under "Summary of the Bonds — Redemptions — Extraordinary Optional Redemption in Whole"). The Company may contest such taxes or other governmental charges unless the security provided by the Indenture would be materially endangered.

### **Maintenance; Damage, Destruction and Condemnation**

So long as any Bonds are outstanding, the Company will maintain the Project or cause the Project to be maintained in good working condition and will make or cause to be made all proper repairs, replacements and renewals necessary to continue to constitute the Project as solid waste disposal facilities under Section 142(a)(6) of the Code and the Act. However, the Company will have no obligation to maintain, repair, replace or renew any portion of the Project, the maintenance, repair, replacement or renewal of which becomes uneconomical to the Company because of certain events, including damage or destruction by a cause not within the Company's control, condemnation of the Project, change in government standards and regulations, economic or other obsolescence or termination of operation of generating facilities to the Project.

The Company, at its own expense, may remodel the Project or make substitutions, modifications and improvements to the Project as it deems desirable, which remodeling, substitutions, modifications and improvements will be deemed, under the terms of the Loan Agreement to be a part of the Project. The Company may not, however, change or alter the basic nature of the Project or cause it to lose its status under Section 142(a)(6) of the Code and the Act.

If, prior to the payment of all Bonds outstanding, the Project or any portion thereof is destroyed, damaged or taken by the exercise of the power of eminent domain and the Issuer or the Company receives net proceeds from insurance or a condemnation award in connection therewith, the Company must (i) cause such net proceeds to be used to repair or restore the Project or (ii) reimburse the Credit Facility Issuer for drawings under the Credit Facility for the redemption of the Bonds in whole or in part at their principal amount, which, by the opinion of Bond Counsel, will not adversely affect the exclusion of the interest on the Bonds from gross

income for federal income tax purposes. See “Summary of the Bonds — Redemptions — Extraordinary Optional Redemption in Whole or in Part.”

### **Insurance**

The Company has agreed to insure the Project in accordance with the provisions of the First Mortgage Indenture.

### **Assignment, Merger and Release of Obligations of the Company**

The Company may assign the Loan Agreement, pursuant to an opinion of Bond Counsel that such assignment will not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes, without obtaining the consent of either the Issuer or the Trustee. Such assignment, however, shall not relieve the Company from primary liability for any of its obligations under the Loan Agreement and performance and observance of the other covenants and agreements to be performed by the Company. The Company may dispose of all or substantially all of its assets or consolidate with or merge into another corporation, provided the acquirer of the Company’s assets or the corporation with which it shall consolidate with or merge into shall be a corporation or other business organization organized and existing under the laws of the United States of America or one of the states of the United States of America or the District of Columbia, shall be qualified and admitted to do business in the Commonwealth of Kentucky and shall assume in writing all of the obligations and covenants of the Company under the Loan Agreement.

### **Release and Indemnification Covenant**

The Company will indemnify and hold the Issuer harmless against any expense or liability incurred, including attorneys’ fees, resulting from any loss or damage to property or any injury to or death of any person occurring on or about or resulting from any defect in the Project or from any action commenced in connection with the financing thereof.

### **Events of Default**

Each of the following events constitutes an “event of default” under the Loan Agreement:

(1) failure by the Company to pay the amounts required for payment of the principal of, including purchase price for tendered Bonds and redemption and acceleration prices, and interest accrued, on the Bonds, at the times specified therein taking into account any periods of grace provided in the Indenture and the Bonds for the applicable payment of interest on the Bonds (see “Summary of the Indenture — Defaults and Remedies”);

(2) failure by the Company to observe and perform any covenant, condition or agreement, other than as referred to in paragraph (1) above, for a period of thirty days after written notice by the Issuer or Trustee, provided, however, that if such failure is capable of being corrected, but cannot be corrected in such 30-day period, it will not constitute an event of default under the Loan Agreement if corrective action with respect thereto is instituted within such period and is being diligently pursued;



- (3) certain events of bankruptcy, dissolution, liquidation, reorganization or insolvency of the Company;
- (4) the occurrence of an event of default under the Indenture; or
- (5) all first mortgage bonds outstanding under the First Mortgage Indenture, if not already due, shall have become immediately due and payable, whether by declaration or otherwise, and such acceleration shall not have been rescinded or annulled by the First Mortgage Trustee.

Under the Loan Agreement, certain of the Company's obligations (other than the Company's obligations, among others, (i) not to permit any action which would result in interest paid on the Bonds being included in gross income for federal and Kentucky income taxes; (ii) to maintain its corporate existence and good standing, and to neither dispose of all or substantially all of its assets or consolidate with or merge into another corporation unless certain provisions of the Loan Agreement are satisfied; and (iii) to make loan payments and certain other payments under the provisions of the Loan Agreement) may be suspended if by reason of force majeure (as defined in the Loan Agreement) the Company is unable to carry out such obligations.

### **Remedies**

Upon the happening of an event of default under the Loan Agreement, the Trustee, on behalf of the Issuer, may, among other things, take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the Company, under the Loan Agreement, including any remedies available in respect of the First Mortgage Bonds.

In the event of a default in payment of the principal of, premium, if any, or interest on the Bonds and the acceleration of the maturity date of the Bonds (to the extent not already due and payable) as a consequence of such event of default, the Trustee may demand redemption of the First Mortgage Bonds. See "Summary of the First Mortgage Bonds" and "Summary of the Indenture — Defaults and Remedies." Any amounts collected upon the happening of any such event of default will be applied in accordance with the Indenture or, if the Bonds have been fully paid (or provision for payment thereof has been made in accordance with the Indenture) and all other liabilities of the Company accrued under the Indenture and the Loan Agreement have been paid or satisfied, made available to the Company.

### **Options to Prepay, Obligation to Prepay**

The Company may prepay the loan pursuant to the Loan Agreement, in whole or in part, on certain dates, at the prepayment prices as shown under the captions "Summary of the Bonds — Redemptions — Optional Redemption," "— Extraordinary Optional Redemption in Whole" and "— Extraordinary Optional Redemption in Whole or in Part." Upon the occurrence of the event described under the caption "Summary of the Bonds — Redemptions — Mandatory Redemption; Determination of Taxability," the Company shall be obligated to prepay the loan in an aggregate amount sufficient to redeem the required principal amount of the Bonds.

In each instance, the loan prepayment price shall be a sum sufficient, together with other funds deposited with the Trustee and available for such purpose, to redeem the requisite amount of the Bonds at a price equal to the applicable redemption price plus accrued interest to the redemption date, and to pay all reasonable and necessary fees and expenses of the Trustee, the Paying Agent and all other liabilities of the Company under the Loan Agreement accrued to the redemption date.

### **Amendments and Modifications**

No amendment or modification of the Loan Agreement is permissible without the written consent of the Trustee. The Issuer and the Trustee may, however, without the consent of or notice to any Bondholders, enter into any amendment or modification of the Loan Agreement (i) which may be required by the provisions of the Loan Agreement or the Indenture, (ii) for the purpose of curing any ambiguity or formal defect or omission, (iii) in connection with any modification or change necessary to conform the Loan Agreement with changes and modifications in the Indenture or (iv) in connection with any other change which, in the judgment of the Trustee, does not adversely affect the Trustee or the Bondholders. Except for such amendments, the Loan Agreement may be amended or modified only with the consent of the Bondholders holding a majority in principal amount of the Bonds then outstanding (see “Summary of the Indenture — Supplemental Indentures” for an explanation of the procedures necessary for Bondholder consent); provided, however, that the approval of the Bondholders holding 100% in principal amount of the Bonds then outstanding is necessary to effectuate an amendment or modification with respect to the Loan Agreement of the type described in clauses (i) through (iv) of the first sentence of the second paragraph of “Summary of the Indenture — Supplemental Indentures.” Any amendments, changes or modification of the Loan Agreement that require the consent of the Bondholders must additionally be approved by the Credit Facility Issuer, if the Bonds are at the time secured by a Credit Facility. Additionally, so long as a Credit Facility is in place or while any amounts are outstanding under a Reimbursement Agreement, the Credit Facility Issuer must consent in writing to any amendment, change, or modification to the Agreement.

### **Summary of the First Mortgage Bonds**

*The following, in addition to the provisions contained elsewhere in this Reoffering Circular, is a brief description of certain provisions of the First Mortgage Bonds and the First Mortgage Indenture. This description is only a summary and does not purport to be complete and definitive. Reference is made to the First Mortgage Indenture and to the form of the First Mortgage Bonds for the detailed provisions thereof.*

#### **General**

The First Mortgage Bonds, in a principal amount equal to the principal amount of the Bonds, were issued as a new tranche from a new series of first mortgage bonds under the First Mortgage Indenture (see "Summary of the Loan Agreement — Issuance and Delivery of First

Mortgage Bonds"). The statements herein made (being for the most part summaries of certain provisions of the First Mortgage Indenture) are subject to the detailed provisions of the First Mortgage Indenture, which is incorporated herein by this reference. Words or phrases italicized are defined in the First Mortgage Indenture.

The First Mortgage Bonds will mature on the same date and bear interest at the same rate or rates as the Bonds; however, the principal of and interest on the First Mortgage Bonds will not be payable other than upon the occurrence of an event of default under the Loan Agreement. If the Bonds become immediately due and payable as a result of a default in payment of the principal of, premium, if any, or interest on the Bonds, or a default in payment of the purchase price of such Bonds, due to an event of default under the Loan Agreement, and if all first mortgage bonds outstanding under the First Mortgage Indenture shall not have become immediately due and payable following an event of default under the First Mortgage Indenture, the Company will be obligated to redeem the First Mortgage Bonds upon receipt by the First Mortgage Trustee of a Redemption Demand from the Trustee for redemption, at a redemption price equal to the principal amount thereof plus accrued interest at the rates borne by the Bonds from the last date to which interest on the Bonds has been paid.

The First Mortgage Bonds at all times will be in fully registered form registered in the name of the Trustee, will be non-negotiable, and will be non-transferable except to any successor trustee under the Indenture. Upon payment and cancellation of Bonds by the Trustee or the Paying Agent (other than any Bond or portion thereof that was canceled by the Trustee or the Paying Agent and for which one or more Bonds were delivered and authenticated pursuant to the Indenture), whether at maturity, by redemption or otherwise, or upon provision for the payment of the Bonds having been made in accordance with the Indenture, an equal principal amount of First Mortgage Bonds will be deemed fully paid and the obligations of the Company thereunder will cease.

### **Security; Lien of the First Mortgage Indenture**

*General.* Except as described below under this heading and under “— Issuance of Additional First Mortgage Bonds,” and subject to the exceptions described under “— Satisfaction and Discharge,” all first mortgage bonds issued under the First Mortgage Indenture, including the Bonds, will be secured, equally and ratably, by the lien of the First Mortgage Indenture, which constitutes, subject to permitted liens as described below, a first mortgage lien on substantially all of the Company’s real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity (other than property duly released from the lien of the First Mortgage Indenture in accordance with the provisions thereof and other than excepted property, as described below). Property that is subject to the lien of the First Mortgage Indenture is referred to herein as “Mortgaged Property.”

The Company may obtain the release of property from the lien of the First Mortgage Indenture from time to time, upon the bases provided for such release in the First Mortgage Indenture. See “— Release of Property.”

The Company may enter into supplemental indentures with the First Mortgage Trustee, without the consent of the holders of the first mortgage bonds, in order to subject additional property (including property that would otherwise be excepted from such lien) to the lien of the First Mortgage Indenture. This property would constitute *property additions* and would be available as a basis for the issuance of additional first mortgage bonds. See “— Issuance of Additional First Mortgage Bonds.”

The First Mortgage Indenture provides that after-acquired property (other than *excepted property*) will be subject to the lien of the First Mortgage Indenture. However, in the case of consolidation or merger (whether or not the Company is the surviving company) or transfer of the Mortgaged Property as or substantially as an entirety, the First Mortgage Indenture will not be required to be a lien upon any of the properties either owned or subsequently acquired by the successor company except properties acquired from the Company in or as a result of such transfer, as well as improvements, extensions and additions (as defined in the First Mortgage Indenture) to such properties and renewals, replacements and substitutions of or for any part or parts thereof. See “— Consolidation, Merger and Conveyance of Assets as an Entirety.”

*Excepted Property.* The lien of the First Mortgage Indenture does not cover, among other things, the following types of property: property located outside of Kentucky and not specifically subjected or required to be subjected to the lien of the First Mortgage Indenture; property not used by the Company in its electric generation, transmission and distribution business; cash and securities not paid, deposited or held under the First Mortgage Indenture; contracts, leases and other agreements of all kinds, contract rights, bills, notes and other instruments, revenues, accounts receivable, claims, demands and judgments; governmental and other licenses, permits, franchises, consents and allowances; intellectual property rights and other general intangibles; vehicles, movable equipment, aircraft and vessels; all goods, stock in trade, wares, merchandise and inventory held for the purpose of sale or lease in the ordinary course of business; materials, supplies, inventory and other personal property consumable in the operation of the Company’s business; fuel; tools and equipment; furniture and furnishings; computers and data processing, telecommunications and other facilities used primarily for administrative or clerical purposes or otherwise not used in connection with the operation or maintenance of electric generation, transmission and distribution facilities; coal, ore, gas, oil and other minerals and timber rights; electric energy and capacity, gas, steam, water and other products generated, produced, manufactured, purchased or otherwise acquired; real property and facilities used primarily for the production or gathering of natural gas; property which has been released from the lien of the First Mortgage Indenture; and leasehold interests. Property of the Company not covered by the lien of the First Mortgage Indenture is referred to herein as excepted property. Properties held by any of the Company’s subsidiaries, as well as properties leased from others, would not be subject to the lien of the First Mortgage Indenture.

*Permitted Liens.* The lien of the First Mortgage Indenture is subject to permitted liens described in the First Mortgage Indenture. Such *permitted liens* include liens existing at the execution date of the First Mortgage Indenture, purchase money liens and other liens placed or otherwise existing on property acquired by the Company after the execution date of the First Mortgage Indenture at the time the Company acquires it, tax liens and other governmental charges which are not delinquent or which are being contested in good faith, mechanics’, construction and materialmen’s liens, certain judgment liens, easements, reservations and rights

of others (including governmental entities) in, and defects of title to, the Company's property, certain leases and leasehold interests, liens to secure public obligations, rights of others to take minerals, timber, electric energy or capacity, gas, water, steam or other products produced by the Company or by others on the Company's property, rights and interests of persons other than the Company arising out of agreements relating to the common ownership or joint use of property, and liens on the interests of such persons in such property and liens which have been bonded or for which other security arrangements have been made.

The First Mortgage Indenture also provides that the First Mortgage Trustee will have a lien, prior to the lien on behalf of the holders of the first mortgage bonds, including the First Mortgage Bonds, upon the Mortgaged Property as security for the Company's payment of its reasonable compensation and expenses and for indemnity against certain liabilities. Any such lien would be a *permitted lien* under the First Mortgage Indenture.

### Issuance of Additional First Mortgage Bonds

The maximum principal amount of first mortgage bonds that may be authenticated and delivered under the First Mortgage Indenture is subject to the issuance restrictions described below; provided, however, that the maximum principal amount of first mortgage bonds outstanding at any one time shall not exceed One Quintillion Dollars (\$1,000,000,000,000,000,000), which amount may be changed by supplemental indenture. As of April 30, 2013, first mortgage bonds in an aggregate principal amount of \$1,850,779,405 were outstanding under the First Mortgage Indenture, of which \$350,779,405 were issued to secure the Company's payment obligations with respect to its outstanding pollution control and environmental facilities revenue bonds, including the Bonds.

First mortgage bonds of any series may be issued from time to time on the basis of, and in an aggregate principal amount not exceeding:

- 66 2/3% of the *cost* or *fair value* to the Company (whichever is less) of *property additions* (as described below) which do not constitute *funded property* (generally, *property additions* which have been made the basis of the authentication and delivery of first mortgage bonds, the release of Mortgaged Property or the withdrawal of cash, which have been substituted for retired *funded property* or which have been used for other specified purposes) after certain deductions and additions, primarily including adjustments to offset property retirements;
- the aggregate principal amount of *retired securities* (as described below); or
- an amount of cash deposited with the First Mortgage Trustee.

*Property additions* generally include any property which is owned by the Company and is subject to the lien of the First Mortgage Indenture except (with certain exceptions) goodwill, going concern value rights or intangible property, or any property the acquisition or construction of which is properly chargeable to one of the Company's operating expense accounts.

*Retired securities* means, generally, first mortgage bonds which are no longer outstanding under the First Mortgage Indenture, which have not been retired by the application of *funded cash* and which have not been used as the basis for the authentication and delivery of first mortgage bonds, the release of property or the withdrawal of cash.

Future First Mortgage Bonds can be issued on the basis of *property additions*. At April 30, 2013, approximately \$1.8 billion of *property additions* were available to be used as the basis for the authentication and delivery of first mortgage bonds.

### Release of Property

Unless an *event of default* has occurred and is continuing, the Company may obtain the release from the lien of the First Mortgage Indenture of any Mortgaged Property, except for cash held by the First Mortgage Trustee, upon delivery to the First Mortgage Trustee of an amount in cash equal to the amount, if any, by which sixty-six and two-thirds percent (66-2/3%) of the cost of the property to be released (or, if less, the *fair value* to the Company of such property at the time it became *funded property*) exceeds the aggregate of:

- an amount equal to 66 2/3% of the aggregate principal amount of obligations secured by *purchase money liens* upon the property to be released and delivered to the First Mortgage Trustee;
- an amount equal to 66 2/3% of the *cost* or *fair value* to the Company (whichever is less) of certified *property additions* not constituting *funded property* after certain deductions and additions, primarily including adjustments to offset property retirements (except that such adjustments need not be made if such *property additions* were acquired or made within the 90-day period preceding the release);
- the aggregate principal amount of first mortgage bonds the Company would be entitled to issue on the basis of *retired securities* (with such entitlement being waived by operation of such release);
- the aggregate principal amount of first mortgage bonds delivered to the First Mortgage Trustee (with such first mortgage bonds to be canceled by the First Mortgage Trustee);
- any amount of cash and/or an amount equal to 66 2/3% of the aggregate principal amount of obligations secured by *purchase money liens* upon the property released delivered to the trustee or other holder of a lien prior to the lien of the First Mortgage Indenture, subject to certain limitations described in the First Mortgage Indenture; and
- any taxes and expenses incidental to any sale, exchange, dedication or other disposition of the property to be released.

As used in the First Mortgage Indenture, the term *purchase money* lien means, generally, a lien on the property being released which is retained by the transferor of such property or granted to one or more other persons in connection with the transfer or release thereof, or granted to or held by a trustee or agent for any such persons, and may include liens which cover property



in addition to the property being released and/or which secure indebtedness in addition to indebtedness to the transferor of such property.

Unless an *event of default* has occurred and is continuing, property which is not *funded property* may generally be released from the lien of the First Mortgage Indenture without depositing any cash or property with the First Mortgage Trustee as long as (a) the aggregate amount of *cost* or *fair value* to the Company (whichever is less) of all *property additions* which do not constitute *funded property* (excluding the property to be released) after certain deductions and additions, primarily including adjustments to offset property retirements, is not less than zero or (b) the *cost* or *fair value* (whichever is less) of property to be released does not exceed the aggregate amount of the *cost* or *fair value* to the Company (whichever is less) of *property additions* acquired or made within the 90-day period preceding the release.

The First Mortgage Indenture provides simplified procedures for the release of minor properties and property taken by eminent domain, and provides for dispositions of certain obsolete property and grants or surrender of certain rights without any release or consent by the First Mortgage Trustee.

If the Company retains any interest in any property released from the lien of the First Mortgage Indenture, the First Mortgage Indenture will not become a lien on such property or such interest therein or any improvements, extensions or additions to such property or renewals, replacements or substitutions of or for such property or any part or parts thereof.

### **Withdrawal of Cash**

Unless an *event of default* has occurred and is continuing, and subject to certain limitations, cash held by the First Mortgage Trustee may, generally, (1) be withdrawn by the Company (a) to the extent of sixty-six and two-thirds percent (66-2/3%) of the *cost* or *fair value* to the Company (whichever is less) of *property additions* not constituting *funded property*, after certain deductions and additions, primarily including adjustments to offset retirements (except that such adjustments need not be made if such *property additions* were acquired or made within the 90-day period preceding the withdrawal) or (b) in an amount equal to the aggregate principal amount of first mortgage bonds that the Company would be entitled to issue on the basis of *retired securities* (with the entitlement to such issuance being waived by operation of such withdrawal) or (c) in an amount equal to the aggregate principal amount of any outstanding first mortgage bonds delivered to the First Mortgage Trustee; or (2) upon the Company's request, be applied to (a) the purchase of first mortgage bonds in a manner and at a price approved by the Company or (b) the payment (or provision for payment) at stated maturity of any first mortgage bonds or the redemption (or provision for payment) of any first mortgage bonds which are redeemable; provided, however, that cash deposited with the First Mortgage Trustee as the basis for the authentication and delivery of first mortgage bonds may, in addition, be withdrawn in an amount not exceeding the aggregate principal amount of cash delivered to the First Mortgage Trustee for such purpose.

### **Events of Default**

An "*event of default*" occurs under the First Mortgage Indenture if

- the Company does not pay any interest on any first mortgage bonds within 30 days of the due date;
- the Company does not pay principal or premium, if any, on any first mortgage bonds on the due date;
- the Company remains in breach of any other covenant (excluding covenants specifically dealt with elsewhere in this section) in respect of any first mortgage bonds for 90 days after the Company receives a written notice of default stating the Company is in breach and requiring remedy of the breach; the notice must be sent by either the First Mortgage Trustee or holders of 25% of the principal amount of outstanding first mortgage bonds; the First Mortgage Trustee or such holders can agree to extend the 90-day period and such an agreement to extend will be automatically deemed to occur if the Company initiates corrective action within such 90 day period and the Company is diligently pursuing such action to correct the default; or
- the Company files for bankruptcy or certain other events in bankruptcy, insolvency, receivership or reorganization occur.

## Remedies

*Acceleration of Maturity.* If an event of default occurs and is continuing, then either the First Mortgage Trustee or the holders of not less than 25% in principal amount of the outstanding first mortgage bonds may declare the principal amount of all of the first mortgage bonds to be due and payable immediately.

*Rescission of Acceleration.* After the declaration of acceleration has been made and before the First Mortgage Trustee has obtained a judgment or decree for payment of the money due, such declaration and its consequences will be rescinded and annulled, if

- the Company pays or deposits with the First Mortgage Trustee a sum sufficient to pay:
  - all overdue interest;
  - the principal of and premium, if any, which have become due otherwise than by such declaration of acceleration and interest thereon;
  - interest on overdue interest to the extent lawful;
  - all amounts due to the First Mortgage Trustee under the First Mortgage Indenture; and
- all *events of default*, other than the nonpayment of the principal which has become due solely by such declaration of acceleration, have been cured or waived as provided in the First Mortgage Indenture.

For more information as to waiver of defaults, see “— Waiver of Default and of Compliance” below.

Appointment of Receiver and Other Remedies. Subject to the First Mortgage Indenture, under certain circumstances and to the extent permitted by law, if an *event of default* occurs and is continuing, the First Mortgage Trustee has the power to appoint a receiver of the Mortgaged Property, and is entitled to all other remedies available to mortgagees and secured parties under the Uniform Commercial Code or any other applicable law.

Control by Holders; Limitations. Subject to the First Mortgage Indenture, if an *event of default* occurs and is continuing, the holders of a majority in principal amount of the outstanding first mortgage bonds will have the right to

- direct the time, method and place of conducting any proceeding for any remedy available to the First Mortgage Trustee, or
- exercise any trust or power conferred on the First Mortgage Trustee.

The rights of holders to make direction are subject to the following limitations:

- the holders’ directions may not conflict with any law or the First Mortgage Indenture; and
- the holders’ directions may not involve the First Mortgage Trustee in personal liability where the First Mortgage Trustee believes indemnity is not adequate.

The First Mortgage Trustee may also take any other action it deems proper which is not inconsistent with the holders’ direction.

In addition, the First Mortgage Indenture provides that no holder of any first mortgage bond will have any right to institute any proceeding, judicial or otherwise, with respect to the First Mortgage Indenture for the appointment of a receiver or for any other remedy thereunder unless

- that holder has previously given the First Mortgage Trustee written notice of a continuing *event of default*;
- the holders of 25% in aggregate principal amount of the outstanding first mortgage bonds have made written request to the First Mortgage Trustee to institute proceedings in respect of that *event of default* and have offered the First Mortgage Trustee reasonable indemnity against costs, expenses and liabilities incurred in complying with such request; and
- for 60 days after receipt of such notice, request and offer of indemnity, the First Mortgage Trustee has failed to institute any such proceeding and no direction inconsistent with such request has been given to the First Mortgage Trustee during such 60-day period by the holders of a majority in aggregate principal amount of outstanding first mortgage bonds.

Furthermore, no holder of any first mortgage bonds will be entitled to institute any such action if and to the extent that such action would disturb or prejudice the rights of other holders of first mortgage bonds.

However, each holder of any first mortgage bonds has an absolute and unconditional right to receive payment when due and to bring a suit to enforce that right.

*Notice of Default.* The First Mortgage Trustee is required to give the holders of the first mortgage bonds notice of any default under the First Mortgage Indenture to the extent required by the Trust Indenture Act, unless such default has been cured or waived; except that in the case of an *event of default* of the character specified in the third bullet point under “— Events of Default” (regarding a breach of certain covenants continuing for 90 days after the receipt of a written notice of default), no such notice shall be given to such holders until at least 60 days after the occurrence thereof. The Trust Indenture Act currently permits the First Mortgage Trustee to withhold notices of default (except for certain payment defaults) if the First Mortgage Trustee in good faith determines the withholding of such notice to be in the interests of the holders of the first mortgage bonds.

The Company will furnish the First Mortgage Trustee with an annual statement as to its compliance with the conditions and covenants in the First Mortgage Indenture.

*Waiver of Default and of Compliance.* The holders of a majority in aggregate principal amount of the outstanding first mortgage bonds may waive, on behalf of the holders of all outstanding first mortgage bonds, any past default under the First Mortgage Indenture, except a default in the payment of principal, premium or interest, or with respect to compliance with certain provisions of the First Mortgage Indenture that cannot be amended without the consent of the holder of each outstanding first mortgage bond affected.

Compliance with certain covenants in the First Mortgage Indenture or otherwise provided with respect to first mortgage bonds may be waived by the holders of a majority in aggregate principal amount of the affected first mortgage bonds, considered as one class.

### **Consolidation, Merger and Conveyance of Assets as an Entirety**

Subject to the provisions described below, the Company has agreed to preserve its corporate existence.

The Company has agreed not to consolidate with or merge with or into any other entity or convey, transfer or lease the Mortgaged Property as or substantially as an entirety to any entity unless

- the entity formed by such consolidation or into which the Company merges, or the entity which acquires or which leases the Mortgaged Property substantially as an entirety, is an entity organized and existing under the laws of the United States of America or any State or Territory thereof or the District of Columbia, and
- expressly assumes, by supplemental indenture, the due and punctual payment of the principal of, and premium and interest on, all the outstanding first mortgage bonds and

the performance of all of the Company's covenants under the First Mortgage Indenture, and

- such entity confirms the lien of the First Mortgage Indenture on the Mortgaged Property, including property thereafter acquired by such entity which constitutes an improvement, extension or addition to the Mortgaged Property or a renewal, replacement or substitution thereof;
- in the case of a lease, such lease is made expressly subject to termination by (i) the Company or by the First Mortgage Trustee and (ii) the purchaser of the property so leased at any sale thereof, at any time during the continuance of an *event of default*; and
- immediately after giving effect to such transaction, no *event of default*, and no event which after notice or lapse of time or both would become an *event of default*, will have occurred and be continuing.

In the case of the conveyance or other transfer of the Mortgaged Property as or substantially as an entirety to any other person, upon the satisfaction of all the conditions described above the Company would be released and discharged from all obligations under the First Mortgage Indenture and on the first mortgage bonds then outstanding unless the Company elects to waive such release and discharge.

The First Mortgage Indenture does not prevent or restrict:

- any consolidation or merger after the consummation of which the Company would be the surviving or resulting entity; or
- any conveyance or other transfer, or lease, of any part of the Mortgaged Property which does not constitute the entirety or substantially the entirety thereof.

If following a conveyance or other transfer, or lease, of any part of the Mortgaged Property, the fair value of the Mortgaged Property retained by the Company exceeds an amount equal to three-halves (3/2) of the aggregate principal amount of all outstanding first mortgage bonds, then the part of the Mortgaged Property so conveyed, transferred or leased shall be deemed not to constitute the entirety or substantially the entirety of the Mortgaged Property. This fair value will be determined within 90 days of the conveyance or transfer by an independent expert that the Company selects and that is approved by the First Mortgage Trustee.

### **Modification of First Mortgage Indenture**

*Without Holder Consent.* Without the consent of any holders of first mortgage bonds, the Company and the First Mortgage Trustee may enter into one or more supplemental indentures for any of the following purposes:

- to evidence the succession of another entity to the Company;

- to add one or more covenants or other provisions for the benefit of the holders of all or any series or tranche of first mortgage bonds, or to surrender any right or power conferred upon the Company;
- to correct or amplify the description of any property at any time subject to the lien of the First Mortgage Indenture; or to better assure, convey and confirm unto the First Mortgage Trustee any property subject or required to be subjected to the lien of the First Mortgage Indenture; or to subject to the lien of the First Mortgage Indenture additional property (including property of others), to specify any additional Permitted Liens with respect to such additional property and to modify the provisions in the First Mortgage Indenture for dispositions of certain types of property without release in order to specify any additional items with respect to such additional property;
- to add any additional *events of default*, which may be stated to remain in effect only so long as the first mortgage bonds of any one more particular series remains outstanding;
- to change or eliminate any provision of the First Mortgage Indenture or to add any new provision to the First Mortgage Indenture that does not adversely affect the interests of the holders in any material respect;
- to establish the form or terms of any series or tranche of first mortgage bonds;
- to provide for the issuance of bearer securities;
- to evidence and provide for the acceptance of appointment of a successor First Mortgage Trustee or by a co-trustee or separate trustee;
- to provide for the procedures required to permit the utilization of a noncertificated system of registration for any series or tranche of first mortgage bonds;
- to change any place or places where
  - the Company may pay principal, premium and interest,
  - first mortgage bonds may be surrendered for transfer or exchange, and
  - notices and demands to or upon the Company may be served;
- to amend and restate the First Mortgage Indenture as originally executed, and as amended from time to time, with such additions, deletions and other changes that do not adversely affect the interest of the holders in any material respect;
- to cure any ambiguity, defect or inconsistency or to make any other changes that do not adversely affect the interests of the holders in any material respect; or



- to increase or decrease the maximum principal amount of first mortgage bonds that may be outstanding at any time.

In addition, if the Trust Indenture Act is amended after the date of the First Mortgage Indenture so as to require changes to the First Mortgage Indenture or so as to permit changes to, or the elimination of, provisions which, at the date of the First Mortgage Indenture or at any time thereafter, were required by the Trust Indenture Act to be contained in the First Mortgage Indenture, the First Mortgage Indenture will be deemed to have been amended so as to conform to such amendment or to effect such changes or elimination, and the Company and the First Mortgage Trustee may, without the consent of any holders, enter into one or more supplemental indentures to effect or evidence such amendment.

*With Holder Consent.* Except as provided above, the consent of the holders of at least a majority in aggregate principal amount of the first mortgage bonds of all outstanding series, considered as one class, is generally required for the purpose of adding to, or changing or eliminating any of the provisions of, the First Mortgage Indenture pursuant to a supplemental indenture. However, if less than all of the series of outstanding first mortgage bonds are directly affected by a proposed supplemental indenture, then such proposal only requires the consent of the holders of a majority in aggregate principal amount of the outstanding first mortgage bonds of all directly affected series, considered as one class. Moreover, if the first mortgage bonds of any series have been issued in more than one tranche and if the proposed supplemental indenture directly affects the rights of the holders of first mortgage bonds of one or more, but less than all, of such tranches, then such proposal only requires the consent of the holders of a majority in aggregate principal amount of the outstanding first mortgage bonds of all directly affected tranches, considered as one class.

However, no amendment or modification may, without the consent of the holder of each outstanding first mortgage bond directly affected thereby,

- change the stated maturity of the principal or interest on any first mortgage bond (other than pursuant to the terms thereof), or reduce the principal amount, interest or premium payable (or method of calculating such rates) or change the currency in which any first mortgage bond is payable, or impair the right to bring suit to enforce any payment;
- create any lien (not otherwise permitted by the First Mortgage Indenture) ranking prior to the lien of the First Mortgage Indenture with respect to all or substantially all of the Mortgaged Property, or terminate the lien of the First Mortgage Indenture on all or substantially all of the Mortgaged Property (other than in accordance with the terms of the First Mortgage Indenture), or deprive any holder of the benefits of the security of the lien of the First Mortgage Indenture;
- reduce the percentages of holders whose consent is required for any supplemental indenture or waiver of compliance with any provision of the First Mortgage Indenture or of any default thereunder and its consequences, or reduce the requirements for quorum and voting under the First Mortgage Indenture; or

- modify certain of the provisions of the First Mortgage Indenture relating to supplemental indentures, waivers of certain covenants and waivers of past defaults with respect to first mortgage bonds.

A supplemental indenture which changes, modifies or eliminates any provision of the First Mortgage Indenture expressly included solely for the benefit of holders of first mortgage bonds of one or more particular series or tranches will be deemed not to affect the rights under the First Mortgage Indenture of the holders of first mortgage bonds of any other series or tranche.

### **Satisfaction and Discharge**

Any first mortgage bonds or any portion thereof will be deemed to have been paid and no longer outstanding for purposes of the First Mortgage Indenture and, at the Company's election, the Company's entire indebtedness with respect to those securities will be satisfied and discharged, if there shall have been irrevocably deposited with the First Mortgage Trustee or any Paying Agent (other than the Company), in trust:

- money sufficient, or
- in the case of a deposit made prior to the maturity of such first mortgage bonds, non-redeemable *eligible obligations* (as defined in the First Mortgage Indenture) sufficient, or
- a combination of the items listed in the preceding two bullet points, which in total are sufficient,

to pay when due the principal of, and any premium, and interest due and to become due on such first mortgage bonds or portions of such first mortgage bonds on and prior to their maturity.

The Company's right to cause its entire indebtedness in respect of the first mortgage bonds of any series to be deemed to be satisfied and discharged as described above will be subject to the satisfaction of any conditions specified in the instrument creating such series.

The First Mortgage Indenture will be deemed satisfied and discharged when no first mortgage bonds remain outstanding and when the Company has paid all other sums payable by it under the First Mortgage Indenture.

All moneys the Company pays to the First Mortgage Trustee or any Paying Agent on First Mortgage Bonds that remain unclaimed at the end of two years after payments have become due may be paid to or upon the Company's order. Thereafter, the holder of such First Mortgage Bond may look only to the Company for payment.

### **Duties of the First Mortgage Trustee; Resignation and Removal of the First Mortgage Trustee; Deemed Resignation**

The First Mortgage Trustee will have, and will be subject to, all the duties and responsibilities specified with respect to an indenture trustee under the Trust Indenture Act. Subject to these provisions, the First Mortgage Trustee will be under no obligation to exercise

any of the powers vested in it by the First Mortgage Indenture at the request of any holder of first mortgage bonds, unless offered reasonable indemnity by such holder against the costs, expenses and liabilities which might be incurred thereby. The First Mortgage Trustee will not be required to expend or risk its own funds or otherwise incur financial liability in the performance of its duties if the First Mortgage Trustee reasonably believes that repayment or adequate indemnity is not reasonably assured to it.

The First Mortgage Trustee may resign at any time by giving written notice to the Company.

The First Mortgage Trustee may also be removed by act of the holders of a majority in principal amount of the then outstanding first mortgage bonds of any series.

No resignation or removal of the First Mortgage Trustee and no appointment of a successor trustee will become effective until the acceptance of appointment by a successor trustee in accordance with the requirements of the First Mortgage Indenture.

Under certain circumstances, the Company may appoint a successor trustee and if the successor accepts, the First Mortgage Trustee will be deemed to have resigned.

### **Evidence to be Furnished to the First Mortgage Trustee**

Compliance with First Mortgage Indenture provisions is evidenced by written statements of the Company's officers or persons selected or paid by the Company. In certain cases, opinions of counsel and certifications of an engineer, accountant, appraiser or other expert (who in some cases must be independent) must be furnished. In addition, the First Mortgage Indenture requires the Company to give to the First Mortgage Trustee, not less than annually, a brief statement as to the Company's compliance with the conditions and covenants under the First Mortgage Indenture.

### **Miscellaneous Provisions**

The First Mortgage Indenture provides that certain first mortgage bonds, including those for which payment or redemption money has been deposited or set aside in trust as described under "— Satisfaction and Discharge" above, will not be deemed to be "outstanding" in determining whether the holders of the requisite principal amount of the outstanding first mortgage bonds have given or taken any demand, direction, consent or other action under the First Mortgage Indenture as of any date, or are present at a meeting of holders for quorum purposes.

The Company will be entitled to set any day as a record date for the purpose of determining the holders of outstanding first mortgage bonds of any series entitled to give or take any demand, direction, consent or other action under the First Mortgage Indenture, in the manner and subject to the limitations provided in the First Mortgage Indenture. In certain circumstances, the First Mortgage Trustee also will be entitled to set a record date for action by holders. If such a record date is set for any action to be taken by holders of particular first mortgage bonds, such action may be taken only by persons who are holders of such first mortgage bonds on the record date.

## **Governing Law**

The First Mortgage Indenture and the first mortgage bonds provide that they are to be governed by and construed in accordance with the laws of the State of New York except where the Trust Indenture Act is applicable or where otherwise required by law. The effectiveness of the lien of the First Mortgage Indenture, and the perfection and priority thereof, will be governed by Kentucky law.

## **Summary of the Indenture**

*The following, in addition to the provisions contained elsewhere in this Reoffering Circular, is a brief description of certain provisions of the Indenture. This description is only a summary and does not purport to be complete and definitive. Reference is made to the Indenture for the detailed provisions thereof.*

## **Security**

Pursuant to the Indenture, the Issuer has assigned and pledged to the Trustee its interest in and to the Loan Agreement, including payments and other amounts due the Issuer thereunder, together with all moneys, property and securities from time to time held by the Trustee under the Indenture (with certain exceptions, including moneys held in or earnings on the Rebate Fund and the Purchase Fund). The Bonds have been further secured by the First Mortgage Bonds delivered to the Trustee (see “Summary of the Loan Agreement — Issuance and Delivery of First Mortgage Bonds”). The First Mortgage Bonds will be registered in the name of the Trustee and will be nontransferable, except to effect a transfer to any successor trustee. The Bonds will not be directly secured by the Project (although the Project is subject to the lien of the First Mortgage Indenture).

## **No Pecuniary Liability of the Issuer**

No provision, covenant or agreement contained in the Indenture or in the Loan Agreement, nor any breach thereof, shall give rise to any pecuniary liability of the Issuer or any charge upon its general credit or taxing powers. The Issuer has not obligated itself by making the covenants, agreements or provisions contained in the Indenture or in the Loan Agreement, except with respect to the Project and the application of the amounts assigned to payment of the principal of, premium, if any, and interest on the Bonds.

## **The Bond Fund**

The payments to be made by the Company pursuant to the Loan Agreement to the Issuer and certain other amounts specified in the Indenture will be deposited into a Bond Fund established pursuant to the Indenture (the “Bond Fund”) and will be maintained in trust by the Trustee. Moneys in the Bond Fund will be used for the payment of the principal of, premium, if any, and interest on the Bonds, and for the redemption of Bonds prior to maturity in the following order of priority: (i) proceeds of the Credit Facility, if any, deposited into the Bond Fund in accordance with the Indenture and (ii) any other moneys provided by or on behalf of the

Company. Any moneys held in the Bond Fund will be invested by the Trustee at the specific written direction of the Company in certain Governmental Obligations, investment-grade corporate obligations and other investments permitted under the Indenture.

So long as a Credit Facility is then held by the Trustee and there is no default in the payment of principal or redemption price of or interest on the Bonds, any amounts in the Bond Fund provided by or on behalf of the Company will be paid to the Credit Facility Issuer to the extent of any amounts that the Company owes the Credit Facility Issuer pursuant to the Reimbursement Agreement. Any amounts remaining in the Bond Fund (first, from the proceeds of the Credit Facility, and second, from the moneys provided by or on behalf of the Company) after payment in full of the principal or redemption price of and interest on the Bonds (or provision for payment thereof) and payment of any outstanding fees and expenses of the Trustee (including its reasonable attorney fees and expenses) will be paid, first, to the Credit Facility Issuer, to the extent of any amounts that the Company owes the Credit Facility Issuer pursuant to the Reimbursement Agreement and, second, to the Company. Any amounts remaining in the Bond Fund (i) after all of the outstanding Bonds have been paid and discharged, (ii) after payment of all fees, charges and expenses to the Issuer, the Trustee, the Registrar and the Paying Agent and of all other amounts required to be paid under the Indenture and the Loan Agreement and (iii) after the receipt by the Trustee of the written request of the Company for such payment, will be paid to the Credit Facility Issuer, if any, to the extent of any amounts that the Company owes to such Credit Facility Issuer pursuant to the Reimbursement Agreement, and then to the Company to the extent that those moneys are in excess of the amounts necessary to effect the payment and discharge of the outstanding Bonds.

### **The Rebate Fund**

A Rebate Fund has been created by the Indenture (the “Rebate Fund”) and is maintained as a separate fund free and clear of the lien of the Indenture. The Issuer, the Trustee and the Company have agreed to comply with all rebate requirements of the Code and, in particular, the Company has agreed that if necessary, it will deposit in the Rebate Fund any such amount as is required under the Code. However, the Issuer, the Trustee and the Company may disregard the Rebate Fund provisions to the extent that they receive an opinion of Bond Counsel that such failure to comply will not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes.

### **Discharge of Indenture**

When all the Bonds and all fees and charges accrued and to accrue of the Trustee and the Paying Agent have been paid or provided for, and when proper notice has been given to the Bondholders or the Trustee that the proper amounts have been so paid or provided for, and if the Issuer is not in default in any other respect under the Indenture, the Indenture shall become null and void. The Bonds will be deemed to have been paid and discharged when there have been irrevocably deposited with the Trustee moneys sufficient to pay the principal, premium, if any, and accrued interest on such Bonds to the due date (whether such date be by reason of maturity or upon redemption) or, in lieu thereof, Governmental Obligations have been deposited which mature in such amounts and at such times as will provide the funds necessary to so pay such

Bonds, and when all reasonable and necessary fees and expenses of the Trustee, the Authenticating Agent, the Bond Registrar and the Paying Agent have been paid or provided for.

Notwithstanding anything to the contrary, if any Bonds are rated by a rating service, no such Bonds will be deemed to have been paid and discharged by reason of any deposit pursuant to the Indenture, unless each such rating service has confirmed in writing to the Trustee that its rating will not be withdrawn or lowered as a result of any such deposit.

So long as the Company owes any amounts to the Credit Facility Issuer, if any, pursuant to the Reimbursement Agreement: (A) the lien of the Indenture may not be discharged; (B) such Credit Facility Issuer shall be subrogated to the extent of such amounts owed by the Company to such Credit Facility Issuer to all rights of the Bondholders to enforce the payment of the Bonds from the revenues and all other rights of the Bondholders under the Bonds, the Indenture and the Loan Agreement; (C) the Bondholders will be deemed paid to the extent of money drawn by the Trustee under the Credit Facility; and (D) subject to the Indenture, the Trustee will sign, execute and deliver all documents or instruments and do all things that may be reasonably required by the Credit Facility Issuer to effect the Credit Facility Issuer's subrogation of rights of enforcement and remedies set forth in the Indenture.

### **Surrender of First Mortgage Bonds**

Upon payment of any principal of, premium, if any, and interest on any of the Bonds which reduces the principal amount of Bonds outstanding, or upon provision for the payment thereof having been made in accordance with the Indenture, First Mortgage Bonds in a principal amount equal to the principal amount of the Bonds so paid, or for the payment of which such provision has been made, shall be surrendered by the Trustee to the First Mortgage Trustee. The First Mortgage Bonds so surrendered shall be deemed fully paid and the obligations of the Company thereunder terminated.

### **Defaults and Remedies**

Each of the following events constitutes an "Event of Default" under the Indenture:

- (1) failure to make payment of any installment of interest on any Bond within a period of one Business Day from the due date;
- (2) failure to make punctual payment of the principal of, or premium, if any, on any Bond on the due date, whether at the stated maturity thereof, or upon proceedings for redemption, or upon the maturity thereof by declaration or if payment of the purchase price of any Bond required to be purchased pursuant to the Indenture is not made when such payment has become due and payable;
- (3) failure of the Issuer to perform or observe any other of the covenants, agreements or conditions in the Indenture or in the Bonds which failure continues for a period of 30 days after written notice by the Trustee, provided, however, that if such failure is capable of being cured, but cannot be cured in such 30-day period, it will not constitute an event of default under the Indenture if corrective action in respect of such failure is instituted within such 30-day period and is being diligently pursued;



- (4) the occurrence of an “event of default” under the Loan Agreement (see “Summary of the Loan Agreement — Events of Default”);
- (5) written notice from the Credit Facility Issuer to the Trustee of an event of default under the Reimbursement Agreement, by reason of which the Trustee has been directed to accelerate the Bonds;
- (6) if a Credit Facility is then held by the Trustee, on or before the close of business on the tenth calendar day following the honoring of a drawing under such Credit Facility to pay interest on the Bonds on an Interest Payment Date, written notice from the Credit Facility Issuer to the Trustee that the interest component of the Credit Facility will not be reinstated; or
- (7) all first mortgage bonds outstanding under the First Mortgage Indenture, if not already due, shall have become due and payable, whether by declaration or otherwise, and such acceleration shall not have been rescinded by the First Mortgage Trustee.

Upon the occurrence of an Event of Default under clauses (1), (2), (5), (6) or (7) above, the Trustee must: (i) enforce each and every right granted to the Trustee as a holder of the First Mortgage Bonds (see “Summary of the First Mortgage Bonds”), (ii) declare the principal of all Bonds and interest accrued thereon to be immediately due and payable, (iii) declare all payments under the Loan Agreement to be immediately due and payable and enforce each and every other right granted to the Issuer under the Loan Agreement for the benefit of the Bondholders and (iv) if a Credit Facility securing the Bonds is in effect, make an immediate drawing under the Credit Facility in accordance with its terms and deposit the proceeds of such drawing in the Bond Fund pending application to the payment of principal of the Bonds, subject to the provisions of the Indenture reserving to the Credit Facility Issuer the right to direct default proceedings and providing for termination of default proceedings upon certain occurrences.

Interest on the Bonds will cease to accrue on the date of issuance of the declaration of acceleration of payment of principal and interest on the Bonds.

In exercising such rights, the Trustee shall take any action that, in the judgment of the Trustee, would best serve the interests of the registered owners. Upon the occurrence of an Event of Default under the Indenture, the Trustee may also proceed to pursue any available remedy by suit at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Bonds then outstanding.

If an Event of Default under the Indenture shall occur and be continuing and the maturity date of the Bonds has been accelerated (to the extent the Bonds are not already due and payable) as a consequence of such event of default, the Trustee may, and upon the written request of the registered owners holding not less than 25% in principal amount of all Bonds then outstanding and upon receipt of indemnity satisfactory to it shall, exercise such rights as it shall possess under the First Mortgage Indenture as a holder of the First Mortgage Bonds and shall also issue a Redemption Demand for such First Mortgage Bonds to the First Mortgage Trustee.

If the Trustee recovers any moneys following an Event of Default, unless the principal of the Bonds shall have been declared due and payable, all such moneys shall be applied in the

following order: (i) to the payment of the fees, expenses, liabilities and advances incurred or made by the Trustee and the Paying Agent, (ii) to the payment of all interest then due on the Bonds and (iii) to the payment of unpaid principal and premium, if any, of the Bonds. If the principal of the Bonds has become due or has been accelerated, such moneys shall be applied in the following order: (i) to the payment of the fees, expenses, liabilities and advances incurred or made by the Trustee and the Paying Agent and (ii) to the payment of principal of and interest then due and unpaid on the Bonds. In each case, however, Trustee and Paying Agent fees or costs will not be payable from moneys derived from Credit Facility drawings, any remarketing proceeds or moneys constituting certain Available Moneys under the Indenture.

No Bondholder may institute any suit or proceeding in equity or at law for the enforcement of the Indenture unless an Event of Default has occurred of which the Trustee has been notified or is deemed to have notice, and registered owners holding not less than 25% in aggregate principal amount of Bonds then outstanding shall have made written request to the Trustee to proceed to exercise the powers granted under the Indenture or to institute such action in their own name and the Trustee shall fail or refuse to exercise its powers within a reasonable time after receipt of indemnity satisfactory to it.

Any judgment against the Issuer pursuant to the exercise of rights under the Indenture shall be enforceable only against specific assigned payments, funds and accounts under the Indenture in the hands of the Trustee. No deficiency judgment shall be authorized against the general credit of the Issuer.

No default under paragraph (3) above shall constitute an Event of Default until actual notice is given to the Issuer and the Company by the Trustee or to the Issuer, the Company and the Trustee by the registered owners holding not less than 25% in aggregate principal amount of all Bonds outstanding and the Issuer and the Company shall have had thirty days after such notice to correct the default and failed to do so. If the default is such that it cannot be corrected within the applicable period but is capable of being cured, it will not constitute an Event of Default if corrective action is instituted within the applicable period.

Notwithstanding the foregoing, in addition to the rights of the Trustee and the Bondholders to direct proceedings as described above, if a Credit Facility is in effect, for so long as such Credit Facility is outstanding and the Credit Facility Issuer is not in default in its duties under the Indenture or the Credit Facility, the Credit Facility Issuer will have the absolute right to direct all proceedings on behalf of the Bondholders of the Bonds. Additionally, if the Event of Default which has occurred is an Event of Default under paragraphs (5) or (6) above, the Credit Facility Issuer, if any, will have no right to direct the Trustee or the Bondholders with respect to any matters, including remedies, and the holders of a majority in aggregate principal amount of the Bonds then outstanding, will have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, or for the appointment of a receiver or any other proceedings hereunder; provided, that such direction shall not be otherwise than in accordance with the provisions of law and of the Indenture.

If an Event of Default has occurred under the Indenture due to failure by the Credit Facility Issuer, if any, to honor a properly presented and conforming drawing by the Trustee under the Credit Facility then in effect in accordance with the terms thereof, all obligations of the Trustee to the Credit Facility Issuer and all rights of such Credit Facility Issuer under the Indenture will be suspended until the earlier of the cure of such failure or all of the Bonds have been paid in full.

### **Waiver of Events of Default**

Except as provided below, the Trustee may in its discretion waive any Event of Default under the Indenture and shall do so upon the written request of the registered owners holding a majority in principal amount of all Bonds then outstanding. If, after the principal of all Bonds then outstanding shall have been declared to be due and payable and prior to any judgment or decree for the appointment of a receiver or for the payment of the moneys due shall have been entered, (i) the Company has caused to be deposited with the Trustee a sum sufficient to pay all matured installments of interest upon all Bonds and the principal of and premium, if any, on any and all Bonds which shall have become due otherwise than by reason of such declaration and the expenses of the Trustee in connection with such default (with interest thereon as provided in the Indenture) and (ii) all Events of Default under the Indenture (other than nonpayment of the principal of Bonds due by said declaration) shall have been remedied, then such Event of Default shall be deemed waived and such declaration and its consequences rescinded and annulled by the Trustee. Such waiver, rescission and annulment shall be binding upon all Bondholders. No such waiver, rescission and annulment shall extend to or affect any subsequent Event of Default or impair any right or remedy consequent thereon.

Upon any waiver or rescission as described above or any discontinuance or abandonment of proceedings under the Indenture, the Trustee shall immediately rescind in writing any Redemption Demand of First Mortgage Bonds previously given to the First Mortgage Trustee. The rescission under the First Mortgage Indenture of a declaration that all first mortgage bonds outstanding under the First Mortgage Indenture are immediately due and payable shall also constitute a waiver of an Event of Default described in paragraph (6) under the subcaption “— Defaults and Remedies” above and a waiver and rescission of its consequences, provided that no such waiver or rescission shall extend to or affect any subsequent or other default or impair any right consequent thereon.

The Trustee may not waive any default under clauses (5) or (6) above unless the Trustee has received in writing from the Credit Facility Issuer a written notice of full reinstatement of the full amount of the Credit Facility and a written rescission of the notice of the Event of Default.

Notwithstanding the foregoing, nothing in the Indenture shall affect the right of a registered owner to enforce the payment of principal of, premium, if any, and interest on the Bonds after the maturity thereof.

### **Voting of First Mortgage Bonds Held by Trustee**

The Trustee, as holder of the First Mortgage Bonds, shall attend any meeting of holders of first mortgage bonds outstanding under the First Mortgage Indenture as to which it receives

due notice. The Trustee shall vote the First Mortgage Bonds held by it, or shall consent with respect thereto, proportionally in the way in which the Trustee reasonably believes will be the vote or consent of all other holders of first mortgage bonds outstanding under the First Mortgage Indenture then eligible to vote or consent.

Notwithstanding the foregoing, the Trustee may not vote the First Mortgage Bonds in favor of, or give consent to, any action which, in the Trustee's opinion, would materially adversely affect the First Mortgage Bonds in a manner not generally shared by all other series of first mortgage bonds, except upon notification by the Trustee to the registered owners of all Bonds then outstanding of such proposal and consent thereto of the registered owners of at least 66 2/3% in aggregate principal amount of all Bonds then outstanding.

### **Supplemental Indentures**

The Issuer and the Trustee may enter into indentures supplemental to the Indenture without the consent of or notice to, the Bondholders in order (i) to cure any ambiguity or formal defect or omission in the Indenture, (ii) to grant to the Trustee, as may lawfully be granted, additional rights for the benefit of the Bondholders, (iii) to subject to the Indenture additional revenues, properties or collateral, (iv) to permit qualification of the Indenture under any federal statute or state blue sky law, (v) to add additional covenants and agreements of the Issuer for the protection of the Bondholders or to surrender or limit any rights reserved to the Issuer, (vi) to make any modification or change to the Indenture which, in the sole judgment of the Trustee, does not adversely affect the Trustee or any Bondholder, (vii) to make amendments to provisions relating to federal income tax matters under the Code or other relevant provisions if, in the opinion of Bond Counsel, those amendments would not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes, (viii) to make any modifications or changes to the Indenture necessary to provide the securing of a Credit Facility or Alternate Credit Facility or any liquidity or credit support of any kind for the security of the Bonds (including without limitation any line of credit, letter of credit, guaranty agreement or insurance coverage), including any modifications of the Indenture or the Agreement necessary to upgrade or maintain the then applicable ratings on the Bonds; or (ix) to permit the issuance of the Bonds in other than book-entry-only form or to provide changes to or for the book-entry system.

Subject to the consent of the Credit Facility Issuer, if any, exclusive of supplemental indentures for the purposes set forth in the preceding paragraph, the consent of registered owners holding a majority in principal amount of all Bonds then outstanding is required to approve any supplemental indenture, except no such supplemental indenture shall permit, without the consent of all of the registered owners of the Bonds then outstanding, (i) an extension of the maturity of the principal of or the interest on any Bond issued under the Indenture or a reduction in the principal amount of any Bond or the rate of interest or time of redemption or redemption premium thereon, (ii) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, (iii) a reduction in the principal amount of the Bonds required for consent to such supplemental indenture or (iv) the deprivation of any registered owners of the lien of the Indenture.

If at any time the Issuer shall request the Trustee to enter into any supplemental indenture requiring the consent of the registered owners of the Bonds, the Trustee, upon being

satisfactorily indemnified with respect to expenses, must notify all such registered owners. Such notice shall set forth the nature of the proposed supplemental indenture and shall state that copies thereof are on file at the principal office of the Trustee for inspection. If, within sixty days (or such longer period as shall be prescribed by the Issuer or the Company) following the mailing of such notice, the registered owners holding the requisite amount of the Bonds outstanding shall have consented to the execution thereof, no Bondholder shall have any right to object or question the execution thereof.

No supplemental indenture shall become effective unless the Company consents to the execution and delivery of such supplemental indenture. The Company shall be deemed to have consented to the execution and delivery of any supplemental indenture if the Trustee does not receive a notice of protest or objection signed by the Company on or before 4:30 p.m., local time in the city in which the principal office of the Trustee is located, on the fifteenth day after the mailing to the Company of a notice of the proposed changes and a copy of the proposed supplemental indenture.

Notwithstanding the foregoing, any Supplemental Indenture that requires the consent of the Bondholders that (i) is to become effective while a Credit Facility is in place or while any amounts are outstanding under any Reimbursement Agreement and (ii) adversely affects the Credit Facility Issuer will not become effective unless and until the Credit Facility Issuer consents in writing to the execution and delivery of such Supplemental Indenture.

#### **Cancellation of Credit Facility; Delivery of Alternate Credit Facility**

The Trustee will, at the written direction of the Company but subject to the conditions described in this paragraph and the receipt of an Opinion of Bond Counsel stating that the cancellation of such Credit Facility is authorized under the Indenture and under the Act and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes, cancel any Credit Facility in accordance with the terms thereof which cancellation may be without substitution therefor or replacement thereof; provided, that any such cancellation will not become effective, surrender of such Credit Facility will not take place and that Credit Facility will not terminate, in any event, until (i) payment by the Credit Facility Issuer has been made for any and all drawings by the Trustee effected on or before such cancellation date (including, if applicable, any drawings for payment of the purchase price of Bonds to be purchased pursuant to the Indenture in connection with such cancellation) and (ii) if the Bonds are in an Long Term Rate Period, only if the then current Long Term Rate Period for the Bonds is ending on, or the Bonds are subject to optional redemption on, the Interest Payment Date immediately preceding the date of such cancellation. Upon written notice given by the Company to the Trustee at least 20 days (35 days if the Bonds are bearing interest at the Long Term Rate) prior to the date of cancellation of any Credit Facility of such cancellation and the effective date of such cancellation, the Trustee will surrender such Credit Facility to the Credit Facility Issuer by which it was issued on or promptly after the effective date of such cancellation in accordance with its terms; provided, that such notice will not be given in any event, if the purchase price of any Bonds to be purchased pursuant to the Indenture in connection with such cancellation includes any premium unless the Company has certified in such notice that the Trustee can draw under a Credit Facility (other than any Alternate Credit Facility being delivered in connection

with such cancellation) on the purchase date related to such purchase of Bonds in an aggregate amount sufficient to pay the premium due upon such purchase of Bonds on such purchase date.

The Company may, at its option, provide for the delivery to the Trustee of an Alternate Credit Facility in replacement of any Credit Facility then in effect. At least 20 days (35 days if the Interest Rate on the Bonds is a Long Term Rate) prior to the date of delivery of an Alternate Credit Facility to the Trustee, the Company must give notice, which notice will also be given to the Remarketing Agent, of such replacement to the Trustee, together with an Opinion of Bond Counsel to the effect that the delivery of such Alternate Credit Facility to the Trustee is authorized under the Indenture and the Act and complies with the terms thereof and that the delivery of such Alternate Credit Facility will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. The Trustee will then accept such Alternate Credit Facility and surrender the previously held Credit Facility, if any, to the previous Credit Facility Issuer for cancellation promptly on or after the 5th day after the Alternate Credit Facility becomes effective; provided, however, that such Alternate Credit Facility must become effective on an Interest Payment Date and, if the Bonds are in a Long Term Rate Period, such Alternate Credit Facility may only become effective on either the last Interest Payment Date for such Long Term Rate Period or an Interest Payment Date on which the Bonds are subject to optional redemption. The notice given to the Trustee shall also be given to the Issuer, the then current Credit Facility Issuer, Moody's, if the Bonds are then rated by Moody's, and S&P, if the Bonds are then rated by S&P; provided that the notice will not be given if the purchase price of any Bonds to be purchased pursuant to the Indenture in connection with such cancellation includes any premium unless the Company has certified in such notice that the Trustee can draw under a Credit Facility then in effect on the purchase date related to such purchase of Bonds in an aggregate amount sufficient to pay the premium due upon such purchase of Bonds on such purchase date and until payment under the Credit Facility to be surrendered shall have been made for any and all drawings by the Trustee effected on or before the date of such surrender for cancellation (including, if applicable, any drawings for payment of the purchase price of Bonds to be purchased pursuant to the Indenture in connection with such cancellation).

Any Alternate Credit Facility delivered to the Trustee must be accompanied by an opinion of counsel to the issuer or provider of such Credit Facility stating that such Credit Facility is a legal, valid, binding and enforceable obligation of such issuer or obligor in accordance with its terms.

The Bonds will be subject to mandatory tender for purchase on the date of cancellation of a Credit Facility and on the date of the delivery of an Alternate Credit Facility. See "Summary of the Bonds — Mandatory Purchases of Bonds."

### **Enforceability of Remedies**

The remedies available to the Trustee, the Issuer and the owners upon an event of default under the Loan Agreement, the Indenture or the First Mortgage Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, the remedies specified by the Loan Agreement, the Indenture or the First Mortgage Indenture may not be readily available or may be



limited. The various legal opinions delivered concurrently with the delivery of the Bonds were qualified as to the enforceability of the various legal instruments by limitations imposed by principles of equity, bankruptcy, reorganization, insolvency, moratorium or other similar laws affecting the rights of creditors generally.

### **Reoffering**

Subject to the terms and conditions of the Remarketing and Bond Purchase Agreement (the "Remarketing Agreement"), between the Company and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Remarketing Agent, the Remarketing Agent has agreed to remarket the Bonds delivered to the Paying Agent for purchase, at a price equal to 100% of the principal amount of the Bonds, plus accrued interest (if any), and in connection therewith will receive customary compensation, plus reimbursement of certain expenses. Under the terms of the Remarketing Agreement, the Company has agreed to indemnify the Remarketing Agent against certain civil liabilities, including liabilities under federal securities laws.

In the ordinary course of their business, the Remarketing Agent and certain of its affiliates, have engaged, and may in the future engage, in investment banking or commercial banking transactions with the Company.

### **Tax Treatment**

On October 20, 2004, the date of original issuance and delivery of the Bonds, Bond Counsel delivered its opinion stating that under existing law, including current statutes, regulations, administrative rulings and official interpretations, subject to the qualifications and exceptions set forth below, interest on the Bonds will be excluded from the gross income of the recipients thereof for federal income tax purposes, except that no opinion will be expressed regarding such exclusion from gross income with respect to any Bond during any period in which it is held by a "substantial user" of the Project or a "related person" as such terms are used in Section 147(a) of the Code. Interest on the Bonds will be an item of tax preference in determining alternative minimum taxable income for individuals and corporations under the Code. Bond Counsel further opined that, subject to the assumptions stated in the preceding sentence, (i) interest on the Bonds would be excluded from gross income of the owners thereof for Kentucky income tax purposes and (ii) the Bonds would be exempt from all ad valorem taxes in Kentucky. Such opinion has not been updated as of the date hereof and no continuing tax exemption opinion is expressed by Bond Counsel.

Bond Counsel delivered an opinion to the effect that the delivery of the Letter of Credit (i) was authorized or permitted by Sections 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes (the "Act") and the Indenture and (ii) did not adversely affect the validity of the Bonds or any exclusion from gross income of interest on the Bonds for federal income tax purposes to which interest on the Bonds would otherwise be entitled.

The opinions of Bond Counsel as to the excludability of interest from gross income for federal income tax purposes were based upon and assumed the accuracy of certain representations of facts and circumstances, including with respect to the Project, which were within the knowledge of the Company and compliance by the Company with certain covenants

and undertakings set forth in the proceedings authorizing the Bonds which are intended to assure that the Bonds are and will remain obligations the interest on which is not includable in gross income of the recipients thereof under the law in effect on the date of such opinion. Bond Counsel did not independently verify the accuracy of the certifications and representations made by the Company and the Issuer. On the date of the opinion and subsequent to the original delivery of the Bonds on October 20, 2004, such representations of facts and circumstances must be accurate and such covenants and undertakings must continue to be complied with in order that interest on the Bonds be and remain excludable from gross income of the recipients thereof for federal income tax purposes under existing law. Bond Counsel expressed no opinion (i) regarding the exclusion of interest on any Bond from gross income for federal income tax purposes on or after the date on which any change, including any interest rate conversion, permitted by the documents other than with the approval of Bond Counsel is taken which adversely affects the tax treatment of the Bonds or (ii) as to the treatment for purposes of federal income taxation of interest on the Bonds upon a Determination of Taxability.

Bond Counsel further opined that the Code prescribed a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes, some of which, including provisions for potential payments by the Issuers to the federal government, require future or continued compliance after issuance of the Bonds in order for the interest to be and to continue to be so excluded from the date of issuance. Noncompliance with certain of these requirements by the Company or the Issuer with respect to the Bonds could cause the interest on the Bonds to be included in gross income for federal income tax purposes and to be subject to federal income taxation retroactively to the date of their issuance. The Company and the Issuer each covenanted to take all actions required of each to assure that the interest on the Bonds shall be and remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion.

The opinion of Bond Counsel as to the exclusion of interest on the Bonds from gross income for federal income tax purposes and federal tax treatment of interest on the Bonds was subject to the following exceptions and qualifications:

(a) The Code provides for a “branch profits tax” which subjects to tax, at a rate of 30%, the effectively connected earnings and profits of a foreign corporation which engages in a United States trade or business. Interest on the Bonds would be includable in the amount of effectively connected earnings and profits and thus would increase the branch profits tax liability.

(b) The Code also provides that passive investment income, including interest on the Bonds, may be subject to taxation for any S corporation with Subchapter C earnings and profits at the close of its taxable year if greater than 25% of its gross receipts is passive investment income.

Except as stated above, Bond Counsel expressed no opinion as to any federal or Kentucky tax consequences resulting from the receipt of interest on the Bonds.

Owners of the Bonds should be aware that the ownership of the Bonds may result in collateral federal income tax consequences. For instance, the Code provides that property and casualty insurance companies will be required to reduce their loss reserve deductions by 15% of the tax-exempt interest received on certain obligations, such as the Bonds, acquired after August 7, 1986. (For purposes of the immediately preceding sentence, a portion of dividends paid to an affiliated insurance company may be treated as tax-exempt interest.) The Code further provides for the disallowance of any deduction for interest expenses incurred by banks and certain other financial institutions allocable to carrying certain tax-exempt obligations, such as the Bonds, acquired after August 7, 1986. The Code also provides that, with respect to taxpayers other than such financial institutions, such taxpayers will be unable to deduct any portion of the interest expenses incurred or continued to purchase or carry the Bonds. The Code also provides, with respect to individuals, that interest on tax-exempt obligations, including the Bonds, is included in modified adjusted gross income for purposes of determining the taxability of social security and railroad retirement benefits. Furthermore, the earned income tax credit is not allowed for individuals with an aggregate amount of disqualified income within the meaning of Section 32 of the Code, which exceeds \$2,200. Interest on the Bonds will be taken into account in the calculation of disqualified income. Prospective purchasers of the Bonds should consult their own tax advisors regarding such matters and any other tax consequences of holding the Bonds.

From time to time, there are legislative proposals in Congress which, if enacted, could alter or amend one or more of the federal tax matters referred to above or could adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to obligations (such as the Bonds) issued prior to enactment.

The opinion of Bond Counsel relating to the delivery of the Letter of Credit is attached as Appendix B-2.

### **Legal Matters**

Certain legal matters in connection with the Bonds were passed upon by Stoll Keenon Ogden PLLC, Louisville, Kentucky, Bond Counsel. Certain legal matters pertaining to the Company were passed upon by Jones Day, Chicago, Illinois, and John R. McCall, Esq., former Executive Vice President, General Counsel, Corporate Secretary and Chief Compliance Officer of the Company.

### **Continuing Disclosure**

Because the Bonds are special and limited obligations of the Issuer, the Issuer is not an “obligated person” for purposes of Rule 15c2-12 (the “Rule”) promulgated by the SEC under the Exchange Act, and does not have any continuing obligations thereunder. Accordingly, the Issuer will not provide any continuing disclosure information with respect to the Bonds or the Issuer.

In order to enable the Remarketing Agent to comply with the requirements of the Rule, the Company has covenanted in a continuing disclosure undertaking agreement delivered to the Trustee for the benefit of the holders of the Bonds (the “Continuing Disclosure Agreement”) to

provide certain continuing disclosure for the benefit of the holders of the Bonds. Under its Continuing Disclosure Agreement, the Company has covenanted to take the following actions:

(a) The Company will provide to each nationally recognized municipal securities information repository (“NRMSIR”), recognized by the SEC pursuant to the Rule, and the state information depository, if any, of the Commonwealth of Kentucky (a “SID” and, together with the NRMSIR, a “Repository”) recognized by the SEC (1) annual financial information of the type set forth in Appendix A to this Reoffering Circular (including any information incorporated by reference therein) and (2) audited financial statements prepared in accordance with generally accepted accounting principles, in each case not later than 120 days after the end of the Company’s fiscal year.

(b) The Company will file in a timely manner with each NRMSIR or the Municipal Securities Rulemaking Board, and with the SID, if any, notice of the occurrence of any of the following events (if applicable) with respect to the Bonds, if material: (i) principal and interest payment delinquencies; (ii) non-payment related defaults; (iii) any unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancement facilities reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; (vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (vii) modifications to rights of the holders of the Bonds; (viii) the giving of notice of optional or unscheduled redemption of any Bonds; (ix) defeasance of the Bonds or any portion thereof; (x) release, substitution, or sale of property securing repayment of the Bonds; and (xi) rating changes with respect to the Bonds or the Company or any obligated person, within the meaning of the Rule.

(c) The Company will file in a timely manner with each Repository notice of a failure by the Company to file any of the notices or reports referred to in paragraphs (a) and (b) above by the due date.

The Company may amend its Continuing Disclosure Agreement (and the Trustee shall agree to any amendment so requested by the Company that does not change the duties of the Trustee thereunder) or waive any provision thereof, but only with a change in circumstances that arises from a change in legal requirements, change in law, or change in the nature or status of the Company with respect to the Bonds or the type of business conducted by the Company; provided that the undertaking, as amended or following such waiver, would have complied with the requirements of the Rule on the date of issuance of the Bonds, after taking into account any amendments to the Rule as well as any change in circumstances, and the amendment or waiver does not materially impair the interests of the holders of the Bonds to which such undertaking relates, in the opinion of the Trustee or counsel expert in federal securities laws acceptable to both the Company and the Trustee, or is approved by the Beneficial Owners of a majority in aggregate principal amount of the outstanding Bonds. The Company acknowledges that its undertakings pursuant to the Rule described under this heading are intended to be for the benefit for the holders of the Bonds and shall be enforceable by the holders of those Bonds or by the Trustee on behalf of such holders. Any breach by the Company of these undertakings pursuant to the Rule will not constitute an event of default under the Indenture, the Loan Agreement or the Bonds.

This Reoffering Circular has been duly approved, executed and delivered by the Company.

KENTUCKY UTILITIES COMPANY

By: /s/ Daniel K. Arbough  
Daniel K. Arbough  
Treasurer

## Appendix A

**Kentucky Utilities Company**

Kentucky Utilities Company (“KU”), incorporated in Kentucky in 1912 and in Virginia in 1991, is a regulated utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. As of December 31, 2012, KU provides electric service to approximately 510,000 customers in 77 counties in central, southeastern and western Kentucky, to approximately 29,000 customers in 5 counties in southwestern Virginia and to less than 10 customers in Tennessee. Our service area covers approximately 4,800 noncontiguous square miles. Approximately 95% of the electricity generated by us is produced by our coal-fired electric generating stations. The remainder is generated by natural gas and oil fueled combustion turbines and a hydroelectric power plant. In Virginia, we operate under the name Old Dominion Power Company. We also sell wholesale electric energy to 12 municipalities in Kentucky under load following contracts.

KU is a wholly-owned subsidiary of LG&E and KU Energy LLC. On November 1, 2010, PPL Corporation purchased all of the interests of LG&E and KU Energy LLC and, indirectly, all of the stock of the Company from E.ON AG, making KU an indirect wholly-owned subsidiary of PPL Corporation. KU’s affiliate, Louisville Gas and Electric Company (“LG&E”), is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy and natural gas in Kentucky.

Additional information regarding KU, including audited financial statements, is available in the documents listed under the caption “Documents Incorporated by Reference,” which documents are incorporated by reference herein.

**Available Information**

KU is subject to the information requirements of the Securities Exchange Act of 1934 and, accordingly, files reports, proxy statements and other information with the Securities and Exchange Commission (“SEC”). Such reports, proxy statements and other information, as well as reports and other information regarding PPL, on file can be inspected and copied at the public reference facilities of the SEC, currently at Room 100 F Street, N.E., Room 1580, Washington, DC 20549; or from the SEC’s Web Site (<http://www.sec.gov>). Please call the SEC at 1-800-SEC-0330 for further information on the public reference room.

**Documents Incorporated By Reference**

The following documents, as filed by KU with the SEC, are incorporated herein by reference:

1. Form 10-K Annual Report of KU for the year ended December 31, 2012; and
2. Form 10-Q Quarterly Report of KU for the quarter ended March 31, 2013.



All documents filed by KU with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 subsequent to the date of this Supplement and prior to the termination of the offering of the Bonds shall be deemed to be incorporated by reference in this Appendix and to be made a part hereof from their respective dates of filing. Any statement contained in a document incorporated or deemed to be incorporated by reference in this Reoffering Circular shall be deemed to be modified or superseded for purposes of this Reoffering Circular to the extent that a statement contained in this Reoffering Circular or in any other subsequently filed document which also is or is deemed to be incorporated by reference in this Reoffering Circular modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Reoffering Circular.

**KU hereby undertakes to provide without charge to each person (including any beneficial owner) to whom a copy of this Reoffering Circular has been delivered, on the written or oral request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated in this Official Statement by reference, other than certain exhibits to such documents. Requests for such copies should be directed to Dan Arbough, Kentucky Utilities Company, One Quality Street, Lexington, Kentucky 40507, telephone: (859) 255-2100.**

**APPENDIX B**

**Opinions of Bond Counsel**

**APPENDIX B-1**

**Opinion of Bond Counsel dated October 20, 2004 relating to the 2004 Series A Bonds**

**HARPER, FERGUSON & DAVIS**

*Division of Ogden Newell & Welch PLLC*

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**SPENCER E. HARPER, JR.**

DIRECT DIAL 502-560-4249  
DIRECT FAX 502-627-8749

sharper@ogdenlaw.com

October 20, 2004

Re: \$50,000,000 County of Carroll, Kentucky, Environmental Facilities Revenue Bonds,  
2004 Series A (Kentucky Utilities Company Project)

We hereby certify that we have examined certified copies of the proceedings of record of the County of Carroll, Kentucky (the "County"), acting by and through its Fiscal Court as its duly authorized governing body, preliminary to and in connection with the issuance by the County of its Environmental Facilities Revenue Bonds, 2004 Series A (Kentucky Utilities Company Project), dated their date of issuance, in the aggregate principal amount of \$50,000,000 (the "Bonds"). The Bonds are issued under the provisions of Sections 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes (the "Act"), for the purpose of providing funds which will be used, with other funds provided by Kentucky Utilities Company (the "Company") for the current refunding of \$50,000,000 aggregate principal amount of the County's Collateralized Solid Waste Disposal Facilities Revenue Bonds (Kentucky Utilities Company Project) 1993 Series A, dated December 1, 1993 (the "Prior Bonds"), which were issued for the purpose of financing the costs of construction, acquisition, installation and equipping of certain solid waste disposal facilities to serve the Ghent Generating Station of the Company in Carroll County, Kentucky (the "Project") in order to provide for the collection, storage, treatment, processing and final disposal of solid wastes, as provided by the Act.

The Bonds mature on October 1, 2034 and bear interest initially at the Dutch Auction Rate, as defined in the Indenture, hereinafter described, subject to change as provided in such Indenture. The Bonds will be subject to optional and mandatory redemption prior to maturity at the times, in the manner and upon the terms set forth in each of the Bonds. From such examination of the proceedings of the Fiscal Court of the County referred to above and from an examination of the Act, we are of the opinion that the County is duly authorized and empowered to issue the Bonds under the laws of the Commonwealth of Kentucky now in force.

October 20, 2004

Page 2

We have examined an executed counterpart of a certain Loan Agreement, dated as of October 1, 2004 (the "Loan Agreement"), between the County and the Company and a certified copy of the proceedings of record of the Fiscal Court of the County preliminary to and in connection with the execution and delivery of the Loan Agreement, pursuant to which the County has agreed to issue the Bonds and to lend the proceeds thereof to the Company to provide funds to pay and discharge, with other funds provided by the Company, the Prior Bonds. The Company has agreed to make Loan payments to the Trustee at times and in amounts fully adequate to pay maturing principal of, interest on and redemption premium, if any, on the Bonds as same become due and payable. From such examination, we are of the opinion that such proceedings of the Fiscal Court of the County show lawful authority for the execution and delivery of the Loan Agreement; that the Loan Agreement has been duly authorized, executed and delivered by the County; and that the Loan Agreement is a legal, valid and binding obligation of the County, enforceable in accordance with its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought.

We have also examined an executed counterpart of a certain Indenture of Trust, dated as of October 1, 2004 (the "Indenture"), by and between the County and Wachovia Bank of Delaware, National Association, as trustee (the "Trustee"), securing the Bonds and setting forth the covenants and undertakings of the County in connection with the Bonds and a certified copy of the proceedings of record of the Fiscal Court of the County preliminary to and in connection with the execution and delivery of the Indenture. Pursuant to the Indenture, certain of the County's rights under the Loan Agreement, including the right to receive payments thereunder, and all moneys and securities held by the Trustee in accordance with the Indenture (except moneys and securities in the Rebate Fund created thereby) have been assigned to the Trustee, as security for the holders of the Bonds. From such examination, we are of the opinion that such proceedings of the Fiscal Court of the County show lawful authority for the execution and delivery of the Indenture; that the Indenture has been duly authorized, executed and delivered by the County; and that the Indenture is a legal, valid and binding obligation upon the parties thereto according to its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought.

In our opinion the Bonds have been validly authorized, executed and issued in accordance with the laws of the Commonwealths of Kentucky and Virginia now in full force and effect, and constitute legal, valid and binding special obligations of the County entitled to the benefit of the security provided by the Indenture and enforceable in accordance with their terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought. The Bonds are payable by the County solely and only from payments and other amounts derived from the Loan Agreement and as provided in the Indenture.

October 20, 2004

Page 3

In our opinion, under existing laws, including current statutes, regulations, administrative rulings and official interpretations by the Internal Revenue Service, subject to the exceptions and qualifications contained in the succeeding paragraphs, interest on the Bonds is excluded from the gross income of the recipients thereof for federal income tax purposes, except that no opinion is expressed regarding such exclusion from gross income with respect to any Bond during any period in which it is held by a "substantial user" of the Project or a "related person," as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Bonds is a separate item of tax preference in determining alternative minimum taxable income for individuals and corporations under the Code. In arriving at this opinion, we have relied upon representations, factual statements and certifications of the Company with respect to certain material facts which are solely within the Company's knowledge in reaching our conclusion, inter alia, that not less than 95% of the net proceeds of the Prior Bonds were used to finance solid waste disposal facilities qualified for financing under Section 142(a)(6) of the Code and the Act. Further, in arriving at the opinion set forth in this paragraph as to the exclusion from gross income of interest on the Bonds, we have assumed and this opinion is conditioned on, the accuracy of and continuing compliance by the Company and the County with representations and covenants set forth in the Loan Agreement and the Indenture which are intended to assure compliance with certain tax-exempt interest provisions of the Code. Such representations and covenants must be accurate and must be complied with subsequent to the issuance of the Bonds in order that interest on the Bonds be excluded from gross income for federal income tax purposes. Failure to comply with certain of such representations and covenants in respect of the Bonds subsequent to the issuance of the Bonds could cause the interest thereon to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. We express no opinion (i) regarding the exclusion of interest on any Bond from gross income for federal income tax purposes on or after the date on which any change, including any interest rate conversion, permitted by the documents (other than with approval of this firm) is taken which adversely affects the tax treatment of the Bonds or (ii) as to the treatment for purposes of federal income taxation of interest on the Bonds upon a Determination of Taxability. We are further of the opinion that interest on the Bonds is excluded from gross income of the recipients thereof for Kentucky income tax purposes and that the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and all political subdivisions thereof.

Our opinion as to the exclusion of interest on the Bonds from gross income for federal income tax purposes and federal tax treatment of interest on the Bonds is further subject to the following exceptions and qualifications:

(a) The Code provides for a "branch profits tax" which subjects to tax, at a rate of 30%, the effectively connected earnings and profits of a foreign corporation which engages in a United States trade or business. Interest on the Bonds would be includable in the amount of effectively connected earnings and profits and thus would increase the branch profits tax liability.



October 20, 2004

Page 4

(b) The Code also provides that passive investment income, including interest on the Bonds, may be subject to taxation for any S corporation with Subchapter C earnings and profits at the close of its taxable year if greater than 25% of its gross receipts is passive investment income.

Except as stated above, we express no opinion as to any federal or Kentucky tax consequences resulting from the receipt of interest on the Bonds.

Holders of the Bonds should be aware that the ownership of the Bonds may result in collateral federal income tax consequences. For instance, the Code provides that, for taxable years beginning after December 31, 1986, property and casualty insurance companies will be required to reduce their loss reserve deductions by 15% of the tax-exempt interest received on certain obligations, such as the Bonds, acquired after August 7, 1986. (For purposes of the immediately preceding sentence, a portion of dividends paid to an affiliated insurance company may be treated as tax-exempt interest.) The Code further provides for the disallowance of any deduction for interest expenses incurred by banks and certain other financial institutions allocable to carrying certain tax-exempt obligations, such as the Bonds, acquired after August 7, 1986. The Code also provides that, with respect to taxpayers other than such financial institutions, such taxpayers will be unable to deduct any portion of the interest expenses incurred or continued to purchase or carry the Bonds. The Code also provides, with respect to individuals, that interest on tax-exempt obligations, including the Bonds, is included in modified adjusted gross income for purposes of determining the taxability of social security and railroad retirement benefits. Furthermore, the earned income credit is not allowed for individuals with an aggregate amount of disqualified income within the meaning of section 32 of the Code, which exceeds \$2,200. Interest on the Bonds will be taken into account in the calculation of disqualified income.

We have received opinions of John R. McCall, Esq., General Counsel of the Company and Jones Day, Chicago, Illinois, counsel to the Company, of even date herewith. In rendering this opinion, we have relied upon said opinions with respect to the matters therein. We have also received an opinion of even date herewith of Hon. James C. Monk, County Attorney of the County, and relied upon said opinion with respect to the matters therein. Said opinions are in forms satisfactory to us as to both scope and content.

We express no opinion as to the title to, the description of, or the existence or priority of any liens, charges or encumbrances on, the Project.

In rendering the foregoing opinions, we are passing upon only those matters specifically set forth in such opinions and are not passing upon the investment quality of the Bonds or the accuracy or completeness of any statements made in connection with any sale thereof. The opinions herein are expressed as of the date hereof and we assume no obligation to supplement or update such opinions to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

October 20, 2004

Page 5

We are members of the Bar of the Commonwealth of Kentucky and do not purport to be experts on the laws of any jurisdiction other than the Commonwealth of Kentucky and the United States of America, and we express no opinion as to the laws of any jurisdiction other than those specified.

HARPER, FERGUSON & DAVIS  
(Division of Ogden Newell & Welch PLLC)

By   
SPENCER E. HARPER, JR.

**APPENDIX B-2**

**Opinion of Bond Counsel dated December 17, 2008 relating to the 2004 Series A Bonds**



S T O L L · K E E N O N · O G D E N  
P L L C

2000 PNC PLAZA  
500 WEST CARROLL STREET  
LOUISVILLE, KY 40202-2828

MAIN: (502) 333-6000  
FAX: (502) 333-6099  
www.skofirm.com

December 17, 2008

County of Carroll, Kentucky  
Carrollton, Kentucky 41008

U.S. Bank National Association, as Trustee  
Nashville, Tennessee 37219

Re: Reoffering of \$50,000,000 "County of Carroll, Kentucky, Environmental Facilities Revenue Bonds, 2004 Series A (Kentucky Utilities Company Project)"

Ladies and Gentlemen:

This opinion is being furnished in accordance with the requirements of the Indenture of Trust, dated as of October 1, 2004 (the "Indenture"), between the County of Carroll, Kentucky (the "Issuer") and U.S. Bank National Association, a national banking association, as successor Trustee (the "Trustee"), pertaining to \$50,000,000 principal amount of County of Carroll, Kentucky, Environmental Facilities Revenue Bonds, 2004 Series A (Kentucky Utilities Company Project), dated October 20, 2004 (the "Bonds"), in order to satisfy certain requirements of the Indenture. Pursuant to the authority of the Indenture and an ordinance adopted by the Issuer, the Company is terminating a municipal bond new issue insurance policy insuring the Bonds and simultaneously delivering a letter of credit to the Trustee for the benefit of the Bondholders. The terms used herein denoted by initial capitals and not otherwise defined shall have the meanings specified in the Indenture.

We have examined the law and such documents and matters as we have deemed necessary to provide this opinion. As to questions of fact material to the opinions expressed herein, we have relied upon the provisions of the Indenture and related documents, and upon representations made to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, as of the date hereof, we are of the opinion that the delivery of a letter of credit and the reoffering of the Bonds as described herein (a) is authorized or permitted by the Act and the Indenture and (b) will not adversely affect the validity of the Bonds or any exclusion from gross income for federal income tax purposes to which interest on the Bonds would otherwise be entitled. Interest on the Bonds is not and will not be excluded from gross income during any period when the Bonds are held by the Company or a "related person" of the Company as defined in Section 147(a) of the Internal Revenue Code of 1986, as amended.

December 17, 2008  
Page 2

In rendering this opinion, we assume, without verifying, that the Issuer and the Company have complied and will comply with all covenants contained in the Indenture, the Loan Agreement between the Issuer and the Company, dated October 1, 2004, and other documents relating to the Bonds. We rendered our approving opinion at the time of the issuance of the Bonds relating to, among other things, the validity of the Bonds and the exclusion from federal income taxation of interest on the Bonds. We have not been requested to update or continue such opinion and have not undertaken to do so. Accordingly, we do not express any opinion with respect to the Bonds except as set forth above.

Our opinion represents our legal judgment based upon our review of the law and the facts that we deem relevant to render such opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to review or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

We express no opinion herein as to the investment quality of the Bonds or the adequacy, accuracy or completeness of any information furnished to any person in connection with any offer or sale of the Bonds.

Respectfully submitted,

  
STOLL KEENON OGDEN PLLC

APPENDIX C

**Sumitomo Mitsui Banking Corporation, New York Branch**

*The information under this heading has been provided solely by Sumitomo Mitsui Banking Corporation, New York Branch and is believed to be reliable. This information has not been verified independently by the Company, the Issuer or the Remarketing Agent. The Company, the Issuer and the Remarketing Agent make no representation whatsoever as to the accuracy, adequacy or completeness of such information.*

**Sumitomo Mitsui Banking Corporation**

Sumitomo Mitsui Banking Corporation (*Kabushiki Kaisha Mitsui Sumitomo Ginko*) (“SMBC”) is a joint stock corporation with limited liability (*Kabushiki Kaisha*) under the laws of Japan. The registered head office of SMBC is located at 1-2, Yurakucho 1-chome, Chiyoda-ku, Tokyo, Japan.

SMBC was established in April 2001 through the merger of two leading banks, The Sakura Bank, Limited and The Sumitomo Bank, Limited. In December 2002, Sumitomo Mitsui Financial Group, Inc. (“SMFG”) was established through a stock transfer as a holding company under which SMBC became a wholly owned subsidiary. SMFG reported ¥ 141,874,426 million in consolidated total assets as of March 31, 2012.

SMBC is one of the world’s leading commercial banks and provides an extensive range of banking services to its customers in Japan and overseas. In Japan, SMBC accepts deposits, makes loans and extends guarantees to corporations, individuals, governments and governmental entities. It also offers financing solutions such as syndicated lending, structured finance and project finance. SMBC also underwrites and deals in bonds issued by or under the guarantee of the Japanese government and local government authorities, and acts in various administrative and advisory capacities for certain types of corporate and government bonds. Internationally, SMBC operates through a network of branches, representative offices, subsidiaries and affiliates to provide many financing products including syndicated lending and project finance.

The New York Branch of SMBC is licensed by the State of New York Banking Department to conduct branch banking business at 277 Park Avenue, New York, New York, and is subject to examination by the State of New York Banking Department and the Federal Reserve Bank of New York.



**Financial and Other Information**

Audited consolidated financial statements for SMFG and its consolidated subsidiaries for the fiscal years ended March 31, 2012, as well as certain unaudited financial information for SMFG and SMBC for the fiscal period ended through December 31, 2012, as well as other corporate data, financial information and analyses are available in English on the website of the Parent at [www.smfg.co.jp/english](http://www.smfg.co.jp/english).

The information herein has been obtained from SMBC, which is solely responsible for its content. The delivery of the Reoffering Circular shall not create any implication that there has been no change in the affairs of SMBC since the date hereof, or that the information contained or referred herein is correct as of any time subsequent to its date.

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Supplement, dated September 25, 2014 to Reoffering Circular dated December 11, 2008, as amended and restated as of June 25, 2013 (the “Reoffering Circular”)

**\$50,000,000**

**County of Carroll, Kentucky**

**Environmental Facilities Revenue Bonds, 2004 Series A**

**(Kentucky Utilities Company Project)**

Effective as of October 1, 2014, through September 26, 2017 (the Letter of Credit (as defined below) expiration date, subject to extension or earlier termination), payment of the principal of and interest on the above-referenced bonds (the “Bonds”) when due will be paid with funds drawn under an irrevocable transferable direct pay letter of credit (the “Letter of Credit”) issued by

**THE BANK OF TOKYO-MITSUBISHI UFJ, LTD., NEW YORK BRANCH**

The Letter of Credit will permit the Trustee to draw with respect to the Bonds up to an amount sufficient to pay (i) the principal thereof (or that portion of the purchase price corresponding to principal) plus (ii) interest thereon (or that portion of the purchase price corresponding to interest) up to a maximum rate of 14% per annum for at least 45 days.

The Bonds will continue to bear interest at a Weekly Rate, determined by the Remarketing Agent, Merrill Lynch, Pierce, Fenner & Smith Incorporated, in accordance with the Indenture, payable on the first Business Day of each calendar month, commencing on November 1, 2014. The interest rate period, interest rate and Interest Rate Mode will be subject to change under certain conditions, as described in the Reoffering Circular. The Bonds are subject to optional redemption, extraordinary optional redemption, in whole or in part, and mandatory redemption following a determination of taxability prior to maturity, as described in the Reoffering Circular. The Bonds are subject to mandatory purchase on any date on which the Bonds are converted to a different Interest Rate Mode and upon the expiration of the Letter of Credit or any Alternate Credit Facility.

This supplement contains a description of the Letter of Credit and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, the issuer of the Letter of Credit. For purposes of the Reoffering Circular, the Letter of Credit is a “Credit Facility” and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch is a “Credit Facility Issuer.” Except as otherwise specified herein, information in the Reoffering Circular referred to above has not been amended or modified and the information contained herein is qualified by reference to, and should be read in conjunction with, the Reoffering Circular, including information incorporated therein by reference. Terms not otherwise defined herein shall have the meanings ascribed to them in such Reoffering Circular.

*The tenth paragraph under the section of the Reoffering Circular captioned “Introductory Statement” is hereby amended to read in its entirety as follows:*

Effective October 1, 2014, the Company will cause to be delivered an irrevocable transferable direct pay letter of credit (the “Letter of Credit”), issued by The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch (the “Bank”), to provide for the timely payment of principal of and accrued interest (calculated for at least 45 days at the maximum rate of 14% per annum) on, and purchase price of, the Bonds. The Company will be required to reimburse the Bank for all amounts drawn by the Trustee under the Letter of Credit pursuant to the terms of a certain Reimbursement Agreement, to be dated as of October 1, 2014 (the “Reimbursement Agreement”), between the Company and the Bank. The Letter of Credit will expire on September 26, 2017, unless extended or earlier terminated.

\* \* \* \*

*The section of the Reoffering Circular captioned “The Letter of Credit” is hereby amended to read in its entirety as follows:*

#### **THE LETTER OF CREDIT**

*The following summarizes certain provisions of the Letter of Credit and the Reimbursement Agreement, to which reference is made for the detailed provisions thereof. Unless otherwise defined in this Reoffering Circular, capitalized terms in the following summary are used as defined in the Letter of Credit and the Reimbursement Agreement. The Company is permitted under the Indenture to deliver an Alternate Credit Facility to replace the Letter of Credit. Any such Alternate Credit Facility must meet certain requirements described in the Indenture.*

#### **The Letter of Credit**

The Letter of Credit will be an irrevocable transferable direct pay letter of credit issued by the Bank in order to provide additional security for the payment of principal of, purchase

price of, interest on and premium, if applicable, on any date when payments under the Bonds are due, including principal and interest payments and payments upon tender, redemption, acceleration or maturity of the Bonds. The Letter of Credit will provide for direct payments to or upon the order of the Trustee as set forth in the Letter of Credit in amounts sufficient to pay such amounts in accordance with the terms thereof.

The Letter of Credit will be issued in an amount equal to the aggregate principal amount of the outstanding Bonds, plus an amount that represents interest accrued thereon at an assumed maximum rate of 14% per annum for 45 days (the "Credit Amount"). The Trustee, upon compliance with the terms of the Letter of Credit, is authorized to draw up to (a) an amount sufficient (i) to pay principal of the Bonds, when due, whether at maturity or upon redemption or acceleration, and (ii) to pay the portion of the purchase price of the Bonds delivered for purchase pursuant to a demand for purchase by the owner thereof or a mandatory tender for purchase and not remarketed (a "Liquidity Drawing") equal to the principal amount of the Bonds, plus (b) an amount not to exceed 45 days of accrued interest on the Bonds at an assumed rate of 14% per annum (i) to pay interest on the Bonds, when due, and (ii) to pay the portion of the interest accrued on the Bonds as of any Liquidity Drawing.

The amount available under the Letter of Credit will be automatically reduced by the amount of any drawing thereunder, subject to reinstatement as described below. With respect to a drawing by the Trustee solely to pay interest on the Bonds on an Interest Payment Date, the amount available under the Letter of Credit will be automatically reinstated in the amount of such drawing effective on the earlier of (i) receipt by the Bank from the Company of reimbursement of any drawing solely to pay interest in full or (ii) at the opening of business on the eleventh calendar day after the date the Bank honors such drawing, unless the Trustee has received written notice from the Bank by the tenth calendar day after the date the Bank honors such drawing that the Bank is not so reinstating the available amount due to the Company's failure to reimburse the Bank for such drawing in full, or that an event of default has occurred and is continuing under the \$198,309,583.05 Letter of Credit Agreement dated as of October 1, 2014 among the Company, the lenders from time to time thereto, and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as Administrative Agent (the "Credit Agreement") and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as Issuing Lender, and, in either case, directing an acceleration of the Bonds pursuant to the Indenture. With respect to a Liquidity Drawing under the Letter of Credit, the amount available under the Letter of Credit will be automatically reduced by the principal amount of the Bonds purchased with the proceeds of such drawing plus the amount of accrued interest on such Bonds. In the event of the remarketing of the Bonds purchased with the proceeds of a Liquidity Drawing, the amount available under the Letter of Credit will be automatically reinstated upon receipt by the Bank or the Trustee on the Bank's behalf of an amount equal to such principal amount plus accrued interest. The Letter of Credit will terminate on the earliest to occur of:

(i) the Bank's close of business on September 26, 2017 (such date, as extended from time to time in accordance with the Letter of Credit is defined as the "Stated Expiration Date");

(ii) the Bank's close of business on the date which is five Business Days following the date of receipt by the Bank of a certificate from the Trustee certifying that

(a) no Bonds remain Outstanding within the meaning of the Indenture, (b) all drawings required to be made under the Indenture and available under the Letter of Credit have been made and honored, (c) an Alternate Credit Facility has been delivered to the Trustee in accordance with the Indenture to replace the Letter of Credit or (d) all of the outstanding Bonds were converted to Bonds bearing interest at a rate other than the Daily Rate or the Weekly Rate;

(iii) the Bank's close of business on the date of receipt by the Bank of a certificate from the Trustee confirming that the Trustee is required to terminate the Letter of Credit in accordance with the terms of the Indenture;

(iv) the date on which the Bank receives and honors an acceleration drawing certificate; or

(v) the Bank's close of business on the date which is 30 days after receipt by the Trustee of written notice from the Bank of an Event of Default under the Credit Agreement and instructing the Trustee to draw under the Letter of Credit.

Pursuant to the Credit Agreement, the Company will be obligated to reimburse the Bank for all amounts drawn under the Letter of Credit, and to pay interest on all such amounts. The Company will also agree to pay the Bank and the Administrative Agent fees for issuing and maintaining the Letter of Credit.

### **The Reimbursement Agreement**

The Reimbursement Agreement, through incorporation of the terms of the Credit Agreement, will impose various covenants and agreements, including operating covenants and a financial covenant, on the Company. Such covenants include, but are not limited to, covenants relating to (i) inspection of the books and financial records of the Company; (ii) mergers or consolidations; (iii) disposition of assets and (iv) maintenance of a ratio of Consolidated Debt to Consolidated Capitalization (in each case as to be defined in the Credit Agreement) not to exceed 70%. Any such covenants may be amended, waived or modified at any time by the Bank and without the consent of the Trustee or the holders of the Bonds. Under certain circumstances, the failure of the Company to comply with such covenants may result in a mandatory tender or acceleration of the Bonds.

An Event of Default under the Credit Agreement will constitute an Event of Default under the Reimbursement Agreement. The following events will constitute an Event of Default under the Credit Agreement:

(i) the Company shall fail to pay when due any principal on any Reimbursement Obligations; or

(ii) the Company shall fail to pay when due any interest on the Reimbursement Obligations, any fee or any other amount payable under the Credit Agreement or under any other Loan Document for five (5) days following the date such payment becomes due thereunder; or

(iii) the Company shall fail to observe or perform certain covenants or agreements contained in the Credit Agreement, including those related to mergers, disposition of assets and capitalization; or

(iv) the Company shall fail to give notice of a Default or Event of Default under the Credit Agreement within a specified number of days following knowledge of such occurrence; or

(v) the Company shall fail to observe or perform any covenant or agreement contained in the Credit Agreement or any other Loan Document (other than those covered above) for thirty (30) days after written notice thereof has been given to the defaulting party by the administrative agent, or at the request of the required lenders; or

(vi) any representation, warranty or certification made by the Company in the Credit Agreement or any other Loan Document or in any certificate, financial statement or other document delivered pursuant hereto or thereto shall prove to have been incorrect in any material respect when made or deemed made; or

(vii) the Company shall (i) fail to pay any principal or interest, regardless of amount, due in respect of any Material Debt beyond any period of grace provided with respect thereto, or (ii) fail to observe or perform any other term, covenant, condition or agreement contained in any agreement or instrument evidencing or governing any such Material Debt beyond any period of grace provided with respect thereto if the effect of any failure referred to in this clause (ii) is to cause, or to permit the holder or holders of such Material Debt or a trustee on its or their behalf to cause, such Material Debt to become due prior to its stated maturity; or

(viii) the Company shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay, or shall admit in writing its inability to pay, its debts as they become due, or shall take any corporate action to authorize any of the foregoing; or

(ix) an involuntary case or other proceeding shall be commenced against the Company seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 days; or an order for relief shall be entered against the Company under the Bankruptcy Code; or

(x) any member of the ERISA Group shall fail to pay when due an amount or amounts aggregating in excess of \$50,000,000 which it shall have become liable to pay under Title IV of ERISA; or notice of intent to terminate a Material Plan shall be filed under Title IV of

ERISA by any member of the ERISA Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate, to impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or to cause a trustee to be appointed to administer any Material Plan; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Material Plan must be terminated; or there shall occur a complete or partial withdrawal from, or default, within the meaning of Section 4219(c)(5) of ERISA, with respect to, one or more Multiemployer Plans which could reasonably be expected to cause one or more members of the ERISA Group to incur a current payment obligation in excess of \$50,000,000; or

(xi) the Company shall fail within sixty (60) days to pay, bond or otherwise discharge any judgment or order for the payment of money in excess of \$20,000,000, entered against the Company that is not stayed on appeal or otherwise being appropriately contested in good faith; or

(xii) a Change of Control shall have occurred;

For purposes of the foregoing:

“Change of Control” means (i) the acquisition by any person, or two or more persons acting in concert, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended) of 25% or more of the outstanding shares of voting stock of PPL Corporation or its successors or (ii) the failure at any time of PPL Corporation or its successors to own 80% or more of the outstanding shares of the voting stock in the Company.

“Material Debt” means debt (other than debt under the Loan Documents) of the Company in a principal or face amount exceeding \$50,000,000.



*The section of the Reoffering Circular captioned “Continuing Disclosure” is hereby amended to read in its entirety as follows:*

### **Continuing Disclosure**

Because the Bonds are special and limited obligations of the Issuer, the Issuer is not an “obligated person” for purposes of Rule 15c2-12 (the “Rule”) promulgated by the SEC under the Exchange Act, and does not have any continuing obligations thereunder. Accordingly, the Issuer will not provide any continuing disclosure information with respect to the Bonds or the Issuer.

In order to enable the Remarketing Agent to comply with the requirements of the Rule, the Company has covenanted in a continuing disclosure undertaking agreement delivered to the Trustee for the benefit of the holders of the Bonds (the “Continuing Disclosure Agreement”) to provide certain continuing disclosure for the benefit of the holders of the Bonds. Under its Continuing Disclosure Agreement, the Company has covenanted to take the following actions:

(i) The Company will provide to each nationally recognized municipal securities information repository (“NRMSIR”), recognized by the SEC pursuant to the Rule, and the state information depository, if any, of the Commonwealth of Kentucky (a “SID” and, together with the NRMSIR, a “Repository”) recognized by the SEC (1) annual financial information of the type set forth in Appendix A to this Reoffering Circular (including any information incorporated by reference therein) and (2) audited financial statements prepared in accordance with generally accepted accounting principles, in each case not later than 120 days after the end of the Company’s fiscal year.

(ii) The Company will file in a timely manner with each NRMSIR or the Municipal Securities Rulemaking Board, and with the SID, if any, notice of the occurrence of any of the following events (if applicable) with respect to the Bonds, if material: (i) principal and interest payment delinquencies; (ii) non-payment related defaults; (iii) any unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancement facilities reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; (vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (vii) modifications to rights of the holders of the Bonds; (viii) the giving of notice of optional or unscheduled redemption of any Bonds; (ix) defeasance of the Bonds or any portion thereof; (x) release, substitution, or sale of property securing repayment of the Bonds; and (xi) rating changes with respect to the Bonds or the Company or any obligated person, within the meaning of the Rule.

(iii) The Company will file in a timely manner with each Repository notice of a failure by the Company to file any of the notices or reports referred to in paragraph (a) above by the due date.

The Company may amend its Continuing Disclosure Agreement (and the Trustee shall agree to any amendment so requested by the Company that does not change the duties of the Trustee thereunder) or waive any provision thereof, but only with a change in circumstances that arises from a change in legal requirements, change in law, or change in the nature or status of the Company with respect to the Bonds or the type of business conducted by the Company; provided

that the undertaking, as amended or following such waiver, would have complied with the requirements of the Rule on the date of issuance of the Bonds, after taking into account any amendments to the Rule as well as any change in circumstances, and the amendment or waiver does not materially impair the interests of the holders of the Bonds to which such undertaking relates, in the opinion of the Trustee or counsel expert in federal securities laws acceptable to both the Company and the Trustee, or is approved by the Beneficial Owners of a majority in aggregate principal amount of the outstanding Bonds. The Company acknowledges that its undertakings pursuant to the Rule described under this heading are intended to be for the benefit for the holders of the Bonds and shall be enforceable by the holders of those Bonds or by the Trustee on behalf of such holders. Any breach by the Company of these undertakings pursuant to the Rule will not constitute an event of default under the Indenture, the Loan Agreement or the Bonds.

*Appendix A of the Reoffering Circular is hereby amended to read in its entirety as follows:*

### **Kentucky Utilities Company**

Kentucky Utilities Company (“KU”), incorporated in Kentucky in 1912 and in Virginia in 1991, is a regulated utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. As of December 31, 2013, KU provides electric service to approximately 514,000 customers in 77 counties in central, southeastern and western Kentucky, to approximately 29,000 customers in 5 counties in southwestern Virginia and to less than 10 customers in Tennessee. Our service area covers approximately 4,800 noncontiguous square miles. Approximately 98% of the electricity generated by us is produced by our coal-fired electric generating stations. The remainder is generated by natural gas and oil fueled combustion turbines and a hydroelectric power plant. In Virginia, we operate under the name Old Dominion Power Company. We currently also sell wholesale electric energy to 12 municipalities in Kentucky under load following contracts. In April 2014, nine municipalities submitted notices of termination to cease taking power under the wholesale requirements contracts, such terminations to be effective in 2019, except in the case of one municipality with a 2017 effective date.

KU is a wholly-owned subsidiary of LG&E and KU Energy LLC and an indirect wholly-owned subsidiary of PPL Corporation. KU’s affiliate, Louisville Gas and Electric Company (“LG&E”), is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy and natural gas in Kentucky. KU’s obligations under the Loan Agreement are solely its own, and not those of any of its affiliates. None of LG&E, PPL Corporation or KU’s other affiliates will be obligated to make any payment on the Loan Agreement or the Bonds.

The information above concerning KU is only a summary and does not purport to be comprehensive. Additional information regarding KU, including audited financial statements, is available in the documents listed under the caption “Documents Incorporated by Reference,” which documents are incorporated by reference herein.

### **Risk Factors**

Investing in the Bonds involves risk. Please see the risk factors in KU’s Annual Report on Form 10-K for the year ended December 31, 2013, which is incorporated by reference in this Appendix A. Before making an investment decision, you should carefully consider these risks as well as the other information contained or incorporated by reference in this Appendix A. Risks and uncertainties not presently known to KU or that KU currently deems immaterial may also impair its business operations, its financial results and the value of the Bonds.

### **Available Information**

KU is subject to the information requirements of the Securities Exchange Act of 1934 and, accordingly, files reports, proxy statements and other information with the Securities and Exchange Commission (“SEC”). Such reports, proxy statements and other information, as well

as reports and other information regarding PPL, on file can be inspected and copied at the public reference facilities of the SEC, currently at Room 100 F Street, N.E., Room 1580, Washington, DC 20549; or from the SEC's Web Site (<http://www.sec.gov>). Please call the SEC at 1-800-SEC-0330 for further information on the public reference room.

### Documents Incorporated By Reference

The following documents, as filed by KU with the SEC, are incorporated herein by reference:

1. Form 10-K Annual Report of KU for the year ended December 31, 2013;
2. Form 10-Q Quarterly Reports of KU for the quarters ended March 31, 2014 and June 30, 2014; and
3. Form 8-K Current Report of KU filed with the SEC on August 13, 2014.

All documents filed by KU with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 subsequent to the date of this Supplement and prior to the termination of the offering of the Bonds shall be deemed to be incorporated by reference in this Appendix and to be made a part hereof from their respective dates of filing. Any statement contained in a document incorporated or deemed to be incorporated by reference in this Reoffering Circular shall be deemed to be modified or superseded for purposes of this Reoffering Circular to the extent that a statement contained in this Reoffering Circular or in any other subsequently filed document which also is or is deemed to be incorporated by reference in this Reoffering Circular modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Reoffering Circular.

**KU hereby undertakes to provide without charge to each person (including any beneficial owner) to whom a copy of this Reoffering Circular has been delivered, on the written or oral request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated in this Official Statement by reference, other than certain exhibits to such documents. Requests for such copies should be directed to Dan Arbough, Kentucky Utilities Company, One Quality Street, Lexington, Kentucky 40507, telephone: (859) 255-2100.**

*Appendix C of the Reoffering Circular is hereby amended to read in its entirety as follows:*

**The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch**

*The information under this heading has been provided solely by The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch and is believed to be reliable. This information has not been verified independently by the Company, the Issuer or the Remarketing Agent. The Company, the Issuer and the Remarketing Agent make no representation whatsoever as to the accuracy, adequacy or completeness of such information.*

**The Bank of Tokyo-Mitsubishi UFJ, Ltd.**

The Bank of Tokyo-Mitsubishi UFJ, Ltd. (“BTMU”), is a Japanese banking corporation with its head office in Tokyo, Japan. It is a wholly owned subsidiary of Mitsubishi UFJ Financial Group Inc. (the “Parent”). With 37,527 employees and approximately 839 branches worldwide (as of March 30, 2014), BTMU is Japan’s largest bank. BTMU also provides a wide range of banking and financial services worldwide, and is one of the largest banks in the world by deposits and loan portfolio. Mitsubishi UFJ Financial Group is one of the top 10 banks in the world as measured by assets and market capitalization.

As of March 31, 2014, BTMU and subsidiaries had total assets of approximately ¥201,615 billion (U.S. \$1,959 billion) and deposits of approximately ¥132,732 billion (U.S. \$1,290 billion). Net income for BTMU and subsidiaries for the Fiscal Year ended March 31, 2014, was approximately ¥754 billion (U.S. \$7.3 billion). These figures are extracted from The Annual Securities Report (Excerpt) for the Fiscal Year ended March 31, 2014, for BTMU and subsidiaries (the “Annual Securities Report”). The Annual Securities Report can be found at [www.bk.mufg.jp](http://www.bk.mufg.jp).

The financial information presented above was translated into U.S. dollars from the Japanese yen amounts set forth in the audited financial statements in the Annual Securities Report, which were prepared in accordance with the auditing standards generally accepted in Japan (“JGAAP”), and not in accordance with U.S. GAAP. The translations of the Japanese yen amounts into U.S. dollar amounts were included solely for the convenience of readers outside Japan, and were made at the rate of ¥102.92 to U.S. \$1, the approximate rate of exchange at March 31, 2014. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

The New York Branch of The Bank of Tokyo-Mitsubishi UFJ, Ltd. is licensed by the State of New York Department of Financial Services to conduct branch banking business at 1251 Avenue of the Americas, New York, New York, and is subject to examination by the State of New York Department of Financial Services, the Federal Reserve Bank of New York and the Federal Reserve Bank of San Francisco.

The Letter of Credit will be solely an obligation of BTMU, and will not be an obligation of, or otherwise guaranteed by, the Parent, and no assets of the Parent or any affiliate of BTMU or the Parent will be pledged to the payment thereof.

The information contained in this Appendix C, including financial information, relates to and has been obtained from BTMU, and is furnished solely to provide limited introductory information regarding BTMU, and does not purport to be comprehensive. Any financial information provided in this Appendix C is qualified in its entirety by the detailed information appearing in the Annual Securities Report referenced above. The delivery hereof shall not create any implication that there has been no change in the affairs of BTMU since March 31, 2014.



**NOT A NEW ISSUE****BOOK-ENTRY-ONLY**

*On October 20, 2004, the date on which the Bonds were originally issued, Bond Counsel delivered its opinion that stated that, subject to the conditions and exceptions set forth under the caption "Tax Treatment," under then current law, interest on the Bonds would be excludable from the gross income of the recipients thereof for federal income tax purposes, except that no opinion was expressed regarding such exclusion from gross income with respect to any Bond during any period in which it is held by a "substantial user" or a "related person" of the Project as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Bonds will be an item of tax preference in determining alternative minimum taxable income for individuals and corporations under the Code. Such interest may be subject to certain federal income taxes imposed on certain corporations, including imposition of the branch profits tax on a portion of such interest. Bond Counsel was further of the opinion that interest on the Bonds would be excludable from the gross income of the recipients thereof for Kentucky income tax purposes and that, under then current law, the principal of the Bonds would be exempt from ad valorem taxes in Kentucky. Such opinion has not been updated as of the date hereof and no continuing tax exemption opinions are expressed by Bond Counsel. However, on December 17, 2008, in connection with the reoffering of the Bonds, Bond Counsel delivered its opinion to the effect that the delivery of a letter of credit (a) was authorized or permitted by the Act and the Indenture and (b) did not adversely affect the validity of the Bonds or any exclusion of the interest thereon from the gross income of the owners of the Bonds for federal income tax purposes. See "Tax Treatment" herein.*

**\$50,000,000**

**County of Carroll, Kentucky,  
Environmental Facilities Revenue Bonds,  
2004 Series A  
(Kentucky Utilities Company Project)  
Due: October 1, 2034**

The County of Carroll, Kentucky, Environmental Facilities Revenue Bonds, 2004 Series A (Kentucky Utilities Company Project) (the "Bonds") are special and limited obligations of the County of Carroll, Kentucky (the "Issuer"), payable by the Issuer solely from and secured by payments to be received by the Issuer pursuant to a Loan Agreement with Kentucky Utilities Company (the "Company"), except as payable from proceeds of such Bonds or investment earnings thereon. The Bonds do not constitute general obligations of the Issuer or a charge against the general credit or taxing powers thereof or of the Commonwealth of Kentucky or any other political subdivision of Kentucky. The Bonds will not be entitled to the benefits of any financial guaranty insurance policy. Principal of, and interest on, the Bonds are secured by the delivery to U.S. Bank National Association, as Trustee, of First Mortgage Bonds of

**KENTUCKY UTILITIES COMPANY**

The Bonds were originally issued on October 20, 2004 and currently bear interest at a Weekly Rate.

Effective July 1, 2013, the Letter of Credit (as defined below) expiration date with respect to such Bonds will be extended from April 22, 2014 to April 22, 2016. The issuer of such Letter of Credit is not being changed. Accordingly, through April 22, 2016, subject to extension or earlier termination, payment of the principal of and interest on the Bonds when due will be paid with funds drawn under an irrevocable transferable direct pay letter of credit (the "Letter of Credit") issued by

**Sumitomo Mitsui Banking Corporation, New York Branch**

The Letter of Credit permits the Trustee to draw with respect to the Bonds up to an amount sufficient to pay (i) the principal thereof (or that portion of the purchase price corresponding to principal) plus (ii) interest thereon (or that portion of the purchase price corresponding to interest) up to a maximum rate of 14% per annum for at least 45 days. For purposes of the Reoffering Circular, the Letter of Credit is a "Credit Facility" and Sumitomo Mitsui Banking Corporation, New York Branch is a "Credit Facility Issuer."

The Bonds will continue to bear interest at a Weekly Rate, determined by the Remarketing Agent, Merrill Lynch, Pierce, Fenner & Smith Incorporated, in accordance with the Indenture, payable on the first Business Day of each calendar month. The interest rate period, interest rate and Interest Rate Mode for the Bonds will be subject to change under certain conditions, as described in this Reoffering Circular. The Bonds are subject to optional redemption, extraordinary optional redemption, in whole or in part, and mandatory redemption following a determination of taxability prior to maturity, as described in this Reoffering Circular. The Bonds are subject to mandatory purchase on any date on which the Bonds are converted to a different Interest Rate Mode and upon the expiration of the Letter of Credit or any Alternate Credit Facility.

The Bonds are registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository. Except as described in this Reoffering Circular, purchases of beneficial ownership interests in the Bonds will be made in book-entry-only form in denominations of \$100,000 and multiples thereof. Purchasers will not receive certificates representing their beneficial interest in the Bonds. See the information contained under the caption "Summary of the Bonds—Book-Entry-Only System" in this Reoffering Circular. The principal of, premium, if any, and interest on the Bonds will be paid by U.S. Bank National Association, a national banking association, as successor Trustee, to Cede & Co., as long as Cede & Co. is the registered owner of the Bonds. Disbursement of such payments to the DTC Participants is the responsibility of DTC, and disbursement of such payments to the purchasers of beneficial ownership interests is the responsibility of DTC's Direct and Indirect Participants, as more fully described in this Reoffering Circular.

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**Price: 100%**

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**BofA Merrill Lynch**

No dealer, broker, salesman or other person has been authorized by the Issuer, the Company or the Remarketing Agent to give any information or to make any representation with respect to the Bonds, other than those contained in this Reoffering Circular, and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. The Remarketing Agent has provided the following sentence for inclusion in this Reoffering Circular. The Remarketing Agent has reviewed the information in this Reoffering Circular in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agent does not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Reoffering Circular nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the parties referred to above since the date hereof. The information set forth herein with respect to the Issuer has been obtained from the Issuer, and all other information has been obtained from the Company and from other sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Remarketing Agent.

In connection with the reoffering of the Bonds, the Remarketing Agent may over-allot or effect transactions which stabilize or maintain the market prices of the Bonds at levels above those that might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THE REOFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

**TABLE OF CONTENTS**

	<b>Page</b>
Introductory Statement.....	1
The Project .....	3
The Issuer.....	3
Summary of the Bonds.....	4
Security .....	29
The Letter of Credit .....	30
Summary of the Loan Agreement.....	34
Summary of the First Mortgage Bonds.....	39
Summary of the Indenture .....	53
Enforceability of Remedies.....	61
Reoffering .....	62
Tax Treatment.....	62
Legal Matters .....	64
Continuing Disclosure .....	64
Appendix A — Kentucky Utilities Company.....	A-1
Appendix B — Opinion of Bond Counsel and Reoffering Opinion of Bond Counsel.....	B-1
Appendix C — Sumitomo Mitsui Banking Corporation, New York Branch.....	C-1

**\$50,000,000**  
**County of Carroll, Kentucky**  
**Environmental Facilities Revenue Bonds,**  
**2004 Series A**  
**(Kentucky Utilities Company Project)**  
**Due: October 1, 2034**

**Introductory Statement**

This Reoffering Circular, including the cover page and appendices, is provided to furnish information in connection with the reoffering by the County of Carroll, Kentucky (the “Issuer”) of its Environmental Facilities Revenue Bonds, 2004 Series A (Kentucky Utilities Company Project), in the aggregate principal amount of \$50,000,000 (the “Bonds”) issued on October 20, 2004 pursuant to an Indenture of Trust dated as of October 1, 2004 (the “Indenture”) between the Issuer and U.S. Bank National Association, a national banking association (the “Trustee”), as successor Trustee, Paying Agent and Bond Registrar, as the same has been amended and restated as of September 1, 2008, and as further amended and supplemented pursuant to the Supplemental Indenture No. 1 to Amended and Restated Indenture of Trust dated as of September 1, 2010.

Pursuant to a Loan Agreement by and between Kentucky Utilities Company (the “Company”) and the Issuer, dated as of October 1, 2004 (the “Loan Agreement”) (as the same has been amended and restated as of September 1, 2008, and as further amended and supplemented pursuant to the Amendment No. 1 to the Amended and Restated Loan Agreement dated as of September 1, 2010), proceeds from the sale of the Bonds, other than accrued interest, if any, paid by the initial purchasers thereof, were loaned by the Issuer to the Company. The Loan Agreement is a separate undertaking by and between the Company and the Issuer.

The Company will continue to repay the loan under the Loan Agreement by making payments to the Trustee in sufficient amounts to pay the principal of and interest and any premium on, and purchase price of, the Bonds. See “Summary of the Loan Agreement — General.” Pursuant to the Indenture, the Issuer’s rights under the Loan Agreement (other than with respect to certain indemnification and expense payments and notification rights) were assigned to the Trustee as security for the Bonds.

For the purpose of further securing the Bonds, the Company has issued and delivered to the Trustee a separate tranche of the Company’s First Mortgage Bonds, Collateral Series 2010 (the “First Mortgage Bonds”). The principal amount, maturity date and interest rate (or method of determining interest rates) of such tranche of First Mortgage Bonds is identical to the principal amount, maturity date and interest rate (or method of determining interest rates) of the Bonds. The First Mortgage Bonds will only be payable, and interest thereon will only accrue, as described herein. See “Summary of the Loan Agreement — Issuance and Delivery of First Mortgage Bonds” and “Summary of the First Mortgage Bonds.” The First Mortgage Bonds will not provide a direct source of liquidity to pay the purchase price of Bonds tendered for purchase in accordance with the Indenture.

The First Mortgage Bonds have been issued under, and are secured by, an Indenture, dated as of October 1, 2010, as supplemented by a supplemental indenture dated as of October

15, 2010 relating to the Bonds (the “Supplemental Indenture”), (the Indenture, as so supplemented, the “First Mortgage Indenture”), between the Company and The Bank of New York Mellon, as trustee (the “First Mortgage Trustee”).

The proceeds of the Bonds were applied to pay and discharge \$50,000,000 in outstanding principal amount of “County of Carroll, Kentucky, Collateralized Solid Waste Disposal Facilities Revenue Bonds (Kentucky Utilities Company Project), 1993 Series A,” dated December 1, 1993 (the “1993 Bonds”), previously issued by the Issuer to finance certain solid waste disposal facilities (the “Project”) owned by the Company.

The Company currently is an operating subsidiary of LG&E and KU Energy LLC and PPL Corporation. Neither LG&E and KU Energy LLC nor PPL Corporation has any obligation to make any payments due under the Loan Agreement or First Mortgage Bonds or any other payments of principal, interest, premium or purchase price of the Bonds.

The Bonds currently bear interest at a Weekly Rate, but may be subsequently converted to bear interest at a Daily Rate, a Flexible Rate, a Semi-Annual Rate, an Annual Rate, a Long Term Rate or a Dutch Auction Rate. **This Reoffering Circular pertains only to the Bonds during such period of time that they bear interest at the Weekly Rate.**

The Bonds are special and limited obligations of the Issuer, and the Issuer’s obligation to pay the principal of and interest and any premium on, and purchase price of, the Bonds is limited solely to the revenues and other amounts received by the Trustee under the Indenture pursuant to the Loan Agreement and the Letter of Credit (as defined below). The Bonds do not constitute an indebtedness, general obligation or pledge of the faith and credit or taxing power of the Issuer, the Commonwealth of Kentucky or any political subdivision thereof. The Bonds are not entitled to the benefits of any financial guaranty insurance policies.

Effective May 2, 2011, the Company caused to be delivered an irrevocable transferable direct pay letter of credit (the “Letter of Credit”), issued by Sumitomo Mitsui Banking Corporation, New York Branch (the “Bank”), to provide for the timely payment of principal of and accrued interest (calculated for at least 45 days at the maximum rate of 14% per annum) on, and purchase price of, the Bonds. The Company is required to reimburse the Bank for all amounts drawn by the Trustee under the Letter of Credit pursuant to the terms of a certain Reimbursement Agreement, dated as of May 2, 2011 (the “Reimbursement Agreement”), between the Company and the Bank. The Letter of Credit will expire on April 22, 2016, unless extended or earlier terminated.

Upon expiration of the Letter of Credit or any Alternate Credit Facility, the Bonds will be subject to mandatory tender for purchase. See “Summary of the Bonds — Mandatory Purchases of Bonds — Mandatory Purchase upon Delivery, Cancellation, Substitution, Termination or Expiration of Any Credit Facility or Replacement with an Alternate Credit Facility.” As used in this Reoffering Circular, “Bank” or “Credit Facility Issuer” refers to the Bank as the issuer of the Letter of Credit and any other issuer of any Alternate Credit Facility delivered in accordance with the Indenture; “Letter of Credit” or “Credit Facility” means the Letter of Credit delivered under the Indenture and, as applicable, any Alternate Credit Facility which may be subsequently delivered in accordance with the Indenture; and “Reimbursement Agreement” refers to the initial

Reimbursement Agreement under which the Letter of Credit is provided and any subsequent agreement entered into between the Company and any other party in connection with the delivery of any Alternate Credit Facility.

Merrill Lynch, Pierce, Fenner & Smith Incorporated has been appointed under the Indenture to serve as Remarketing Agent for the Bonds. Any Remarketing Agent may resign or be removed and a successor Remarketing Agent may be appointed in accordance with the terms of the Indenture and the Remarketing Agreement for the Bonds between the Remarketing Agent and the Company.

Brief descriptions of the Company, the Issuer, the Bonds, the First Mortgage Bonds (including the Supplemental Indenture and the First Mortgage Indenture), the Loan Agreement, the Indenture, the Letter of Credit and the Reimbursement Agreement are included in this Reoffering Circular. Appendix A to this Reoffering Circular has been furnished by the Company. The Issuer and Bond Counsel assume no responsibility for the accuracy or completeness of such Appendix A or such information. Appendix B to this Reoffering Circular contains the opinion of Bond Counsel delivered on the date on which the Bonds were initially issued, and the opinion of Bond Counsel delivered in connection with the reoffering of the Bonds and the delivery of the Letter of Credit. Appendix C to this Reoffering Circular contains information about the Bank. The Issuer and Bond Counsel assume no responsibility for the accuracy or completeness of such Appendix C or such information. Such descriptions and information do not purport to be complete, comprehensive or definitive and are not to be construed as a representation or a guaranty of accuracy or completeness. All references herein to the documents are qualified in their entirety by reference to such documents, and references herein to the Bonds are qualified in their entirety by reference to the definitive form thereof included in the Indenture. Copies of the Loan Agreement, the Indenture, the Letter of Credit and the Reimbursement Agreement will be available for inspection at the principal corporate trust office of the Trustee. The First Mortgage Indenture is available for inspection at the office of the Company in Lexington, Kentucky, and at the corporate trust office of the First Mortgage Trustee in New York, New York. Certain information relating to The Depository Trust Company (“DTC”) and the book-entry-only system has been furnished by DTC. All statements herein are qualified in their entirety by reference to each such document and, with respect to the enforceability of certain rights and remedies, to laws and principles of equity relating to or affecting generally the enforcement of creditors’ rights.

### **The Project**

The Project has been completed, placed in operation, and is the property of the Company. The Project consists of certain solid waste disposal facilities at the Company’s Ghent Generating Station located in Carroll County.

### **The Issuer**

The Issuer is a public body corporate and politic duly created and existing as a county and political subdivision under the Constitution and laws of the Commonwealth of Kentucky. The Issuer is authorized by Sections 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes (collectively, the “Act”) to (a) reoffer the Bonds and (b) amend and restate and continue



to perform its obligations under the Loan Agreement and the Indenture. The Issuer, through its legislative body, the Fiscal Court, has adopted one or more ordinances authorizing the issuance of the Bonds and the execution and delivery of the related documents.

THE BONDS ARE SPECIAL AND LIMITED OBLIGATIONS PAYABLE SOLELY AND ONLY FROM CERTAIN SOURCES, INCLUDING AMOUNTS TO BE RECEIVED BY THE TRUSTEE FROM THE LETTER OF CREDIT AND BY OR ON BEHALF OF THE ISSUER UNDER THE LOAN AGREEMENT. THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS, GENERAL OBLIGATION OR PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE ISSUER, THE COMMONWEALTH OF KENTUCKY OR ANY POLITICAL SUBDIVISION THEREOF, AND DO NOT GIVE RISE TO A PECUNIARY LIABILITY OF THE ISSUER OR A CHARGE AGAINST ITS GENERAL CREDIT OR TAXING POWERS.

### Summary of the Bonds

#### General

The Bonds were issued in the aggregate principal amount set forth on the cover page of this Reoffering Circular and will mature on October 1, 2034. The Bonds are also subject to optional redemption, extraordinary optional redemption, in whole or in part, and mandatory redemption prior to maturity as described herein.

The Bonds will continue to bear interest at a Weekly Rate, and interest will be payable on the first Business Day of each calendar month, until a Conversion to another Interest Rate Mode is specified by the Company or until the redemption or maturity of the Bonds. The permitted Interest Rate Modes for the Bonds are (i) the “Flexible Rate,” (ii) the “Daily Rate,” (iii) the “Weekly Rate,” (iv) the “Semi-Annual Rate,” (v) the “Annual Rate,” (vi) the “Long Term Rate” and (vii) the “Dutch Auction Rate.” Changes in the Interest Rate Mode will be effected, and notice of such changes will be given, as described below in “— Conversion of Interest Rate Modes and Changes of Long Term Rate Periods.”

During each Rate Period for an Interest Rate Mode (other than a Dutch Auction Rate), the interest rate or rates for the Bonds in that Interest Rate Mode, and Flexible Rate Periods for Bonds accruing interest at a Flexible Rate, will be determined by the Remarketing Agent in accordance with the Indenture; provided that the interest rate or rates borne by any Bonds may not exceed the lesser of (i) the maximum interest rate permitted by applicable law or (ii) 14% per annum.

Interest on the Bonds which bear interest at a Flexible Rate, Daily Rate or Weekly Rate will be computed on the basis of a year of 365 or 366 days, as appropriate, and paid for the actual number of days elapsed. Interest on the Bonds which bear interest at a Semi-Annual Rate, Annual Rate or Long Term Rate will be computed on the basis of a 360-day year of twelve 30-day months. Interest on the Bonds which bear interest at a Dutch Auction Rate will be computed on the basis of a 360-day year for the actual number of days elapsed. Interest payable on any Interest Payment Date will be payable to the registered owner of the Bond as of the Record Date for such payment; provided that in the case of Bonds bearing interest at the Flexible Rate,

interest will be payable to the registered owner of such Bond on the Interest Payment Date therefor. The Record Date, in the case of interest accrued at a Daily Rate or Weekly Rate, will be the close of business on the Business Day immediately preceding each Interest Payment Date, in the case of interest accrued at a Dutch Auction Rate, will be the close of business on the second Business Day immediately preceding each Interest Payment Date, and in the case of interest accrued at a Semi-Annual Rate, Annual Rate or Long Term Rate, will be the close of business on the fifteenth day (whether or not a Business Day) of the month preceding each Interest Payment Date.

The Bonds initially will be issued solely in book-entry-only form through DTC (or its nominee, Cede & Co.). So long as the Bonds are held in the book-entry-only system, DTC or its nominee will be the registered owner or holder of the Bonds for all purposes of the Indenture, the Bonds and this Reoffering Circular. See “— Book-Entry-Only System” below. Individual purchases of book-entry interests in the Bonds will be made in book-entry-only form in (i) denominations of \$25,000 and integral multiples thereof, if bearing interest at the Dutch Auction Rate, (ii) denominations of \$100,000 or any integral multiple thereof, if bearing interest at the Daily Rate or the Weekly Rate, (iii) denominations of \$100,000 or any integral multiple of \$5,000 in excess of \$100,000, if bearing interest at Flexible Rates, or (iv) denominations of \$5,000 and integral multiples thereof, if bearing interest at the Semi-Annual Rate, the Annual Rate or the Long Term Rate.

Except as otherwise described below for Bonds held in DTC’s book-entry-only system, the principal or redemption price of the Bonds is payable at the designated corporate trust office in Nashville, Tennessee, of the Trustee, as paying agent (the “Paying Agent”). Except as otherwise described below for Bonds held in DTC’s book-entry-only system, interest on the Bonds is payable by check mailed to the owner of record; provided that interest payable on each Bond will be payable in immediately available funds by wire transfer within the continental United States or by deposit into a bank account maintained with the Paying Agent (i) if the Interest Rate Mode is the Daily Rate, the Weekly Rate, the Dutch Auction Rate or the Flexible Rate, or (ii) at the written request of any owner of record holding at least \$1,000,000 aggregate principal amount of the Bonds, if the Interest Rate Mode is the Semi-Annual Rate, Annual Rate or Long Term Rate, received by the Trustee, as bond registrar (the “Bond Registrar”), at least one Business Day prior to any Record Date. Except as otherwise described below for Bonds held in DTC’s book-entry-only system, if the Interest Rate Mode is the Flexible Rate, interest payable on each Bond will be paid only upon presentation and surrender of such Bond.

Bonds may be transferred or exchanged for an equal total amount of Bonds of other authorized denominations upon surrender of such Bonds at the principal office of the Bond Registrar, accompanied by a written instrument of transfer or authorization for exchange in form and with guaranty of signature satisfactory to the Bond Registrar, duly executed by the registered owner or the owner’s duly authorized attorney. Except as provided in the Indenture, the Bond Registrar will not be required to register the transfer or exchange of any Bond (i) during the fifteen days before any mailing of a notice of redemption of Bonds, (ii) after such Bond has been called for redemption or (iii) for which a registered owner has submitted a demand for purchase (see “— Purchases of Bonds on Demand of Owner” below), or which has been purchased (see “— Payment of Purchase Price” below). Registration of transfers and exchanges will be made without charge to the registered owners of Bonds, except that the Bond Registrar may require

any registered owner requesting registration of transfer or exchange to pay any required tax or governmental charge.

### **The Bonds Are Not Insured**

The Bonds described in this Reoffering Circular are not insured, and holders thereof will have no recourse to, under or against any bond insurance policy or bond insurer.

### **Tender Agent**

Owners may tender their Bonds, and in certain circumstances will be required to tender their Bonds, to the Tender Agent for purchase at the times and in the manner described below under “—Summary of Certain Provisions of the Bonds,” “— Purchases of Bonds on Demand of Owner” and “— Mandatory Purchases of Bonds.” So long as the Bonds are held in DTC’s book-entry-only system, the Trustee will act as Tender Agent under the Indenture. Any successor Tender Agent appointed pursuant to the Indenture will also be a Paying Agent.

### **Remarketing Agent**

Merrill Lynch, Pierce, Fenner & Smith Incorporated will act as the Remarketing Agent with respect to the Bonds (the “Remarketing Agent”). The Remarketing Agent may resign or be removed and a successor Remarketing Agent may be appointed in accordance with the terms of the Indenture and the Remarketing Agreement for the Bonds between the Remarketing Agent and the Company.

### **Special Considerations Relating to the Remarketing Agent**

*The Remarketing Agent is paid by the Company.*

The Remarketing Agent’s responsibilities include determining the interest rate from time to time and remarketing Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the Remarketing Agreement), all as further described herein. The Remarketing Agent is appointed by the Issuer at the request of the Company and paid by the Company for its services. As a result, the interests of the Remarketing Agent may differ from those of existing holders and potential purchasers of Bonds.

*The Remarketing Agent routinely purchases bonds for its own account.*

The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchases such obligations for its own account in order to achieve a successful remarketing of the obligations (i.e., because there are otherwise not enough buyers to purchase the obligations) or for other reasons. The Remarketing Agent is permitted, but not obligated, to purchase tendered Bonds for its own account and, if it does so, it may cease doing so at any time without notice. The Remarketing Agent may also make a market in the Bonds by routinely purchasing and selling Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in the Bonds. The Remarketing Agent may also sell any Bonds it has purchased to one or more affiliated

investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Bonds. The purchase of Bonds by the Remarketing Agent may create the appearance that there is greater third party demand for the Bonds in the market than is actually the case. The practices described above also may result in fewer Bonds being tendered in a remarketing.

*Bonds may be offered at different prices on any date.*

As more fully described under the caption “— Determination of Interest Rates for Interest Rate Modes,” the Remarketing Agent shall determine the minimum rate of interest per annum which in the opinion of the Remarketing Agent, would be necessary on and as of such day to remarket the Bonds in a secondary market transaction at a price equal to the principal amount thereof plus accrued interest thereon, if any, provided that such rate of interest shall not exceed 14% per annum. The interest rate will reflect, among other factors, the level of market demand for the Bonds (including whether the Remarketing Agent is willing to purchase Bonds for its own account). There may or may not be Bonds tendered and remarketed on a day that the rate on the Bonds are set, the Remarketing Agent may or may not be able to remarket any Bonds tendered for purchase on such date at par and the Remarketing Agent may sell Bonds at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Bonds at the remarketing price. In the event the Remarketing Agent owns any Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such Bonds on any date, including the day that the rate on the Bonds are set, at a discount to par to some investors.

*The ability to sell the Bonds other than through the tender process may be limited.*

**The Remarketing Agent may buy and sell Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender their Bonds to do so through the Trustee with appropriate notice. Thus, investors who purchase the Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Bonds other than by tendering the Bonds in accordance with the tender process.**

### **Certain Definitions**

As used herein, each of the following terms will have the meaning indicated. Certain capitalized terms used herein and not otherwise defined will have the meanings set forth in the Indenture.

“*Alternate Credit Facility*” means an irrevocable letter of credit, a municipal bond insurance policy, a surety bond, a line or lines of credit, a guarantee or other similar agreement or agreements or any other agreement or agreements used to provide liquidity or credit support for the Bonds, satisfactory to the Company and the Remarketing Agent and containing administrative provisions reasonably satisfactory to the Trustee, issued and delivered to the Trustee in accordance with the Indenture.

“*Annual Rate Period*” means the period beginning on, and including, the Conversion Date to the Annual Rate and ending on, and including, the day next preceding the second Interest Payment Date thereafter, and each successive twelve-month period (or portion thereof) thereafter until the day preceding the earlier of the Conversion to a different Interest Rate Mode or the maturity of the Bonds.

“*Beneficial Owner*” means the person in whose name a Bond is recorded as such upon the systems of DTC and each DTC Participant (as defined herein) or the registered holder of such Bond if such Bond is not then registered in the name of Cede & Co.

“*Business Day*” means any day other than a Saturday or Sunday or legal holiday or a day on which banking institutions located in the City of New York, New York, or the New York Stock Exchange or banking institutions in the city in which the principal office of the Trustee, the Bond Registrar, the Tender Agent, the Paying Agent, the Auction Agent, the Company, the Credit Facility Issuer or the Remarketing Agent is located are authorized by law or executive order to close.

“*Conversion*” means any conversion from time to time in accordance with the terms of the Indenture of the Bonds from one Interest Rate Mode to another Interest Rate Mode.

“*Conversion Date*” means the date on which any Conversion becomes effective.

“*Credit Facility*” means an irrevocable direct pay letter of credit or other credit enhancement or liquidity support facility, or any combination thereof, delivered to and in favor of the Trustee for the benefit of the owners of the Bonds pursuant to the Indenture and designated as a “Credit Facility” under the Indenture, and includes any Alternate Credit Facility delivered to the Trustee pursuant to the Indenture.

“*Credit Facility Issuer*” means the issuer of any Credit Facility or Alternate Credit Facility subsequently in effect.

“*Daily Rate Period*” means the period beginning on, and including, the Conversion Date to the Daily Rate and ending on and including the day preceding the next Business Day and each period thereafter beginning on and including a Business Day and ending on and including the day preceding the next succeeding Business Day until the day preceding the earlier of the Conversion to a different Interest Rate Mode or the maturity of the Bonds.

“*Dutch Auction Rate*” means the rate of interest to be borne by the Bonds during each Dutch Auction Rate Period determined in accordance with the Indenture.

“*Dutch Auction Rate Period*” means the period during which the Bonds bear interest at the Dutch Auction Rate.

“*Flexible Rate*” means the Interest Rate Mode for the Bonds in which the interest rate for each Bond is determined with respect to that Bond during each Flexible Rate Period applicable to that Bond, as provided in the Indenture.

“*Flexible Rate Period*” means with respect to any Bond, each period (which may be from one day to 364 days, or such lower maximum number of days as is then permitted under the Indenture) determined for such Bond, as provided in the Indenture.

“*Interest Payment Date*” means (i) if the Interest Rate Mode is the Daily Rate or the Weekly Rate, the first Business Day of each calendar month, (ii) if the Interest Rate Mode is the Flexible Rate, for each Bond the last day of each Flexible Rate Period for such Bond (or if such day is not a Business Day, the next succeeding Business Day), (iii) if the Interest Rate Mode is the Semi-Annual Rate, the Annual Rate or the Long Term Rate, April 1 and October 1, and, in the case of the Long Term Rate, the effective date of a change to a new Long Term Rate Period; (iv) if the Interest Rate Mode is the Dutch Auction Rate Mode, the dates determined in accordance with the terms of the Indenture; and (iv) any Conversion Date (including the date of a failed Conversion) or a change to a new Long Term Rate Period for such Bonds. In any case, the final Interest Payment Date will be the maturity date of the Bonds.

“*Interest Period*” means for all Bonds (or for any Bond if the Interest Rate Mode is the Flexible Rate) the period from and including each Interest Payment Date to and including the day immediately preceding the next Interest Payment Date, provided, however that the first Interest Period for the Bonds will begin on (and include) the date of issuance of the Bonds and the final Interest Period will end on September 30, 2034.

“*Interest Rate Mode*” means the Dutch Auction Rate, the Flexible Rate, the Daily Rate, the Weekly Rate, the Semi-Annual Rate, the Annual Rate and the Long Term Rate.

“*Long Term Rate Period*” means any period established by the Company as hereinafter set forth under “— Determination of Interest Rates for Interest Rate Modes — Long Term Rates and Long Term Rate Periods” and beginning on, and including, the Conversion Date to the Long Term Rate and ending on, and including, the day preceding the last Interest Payment Date for such period and, thereafter, each successive period of the same duration as the Long Term Rate Period previously established until the day preceding the earliest of the change to a different Long Term Rate Period, the Conversion to a different Interest Rate Mode or the maturity of the Bonds.

“*Prevailing Market Conditions*” means, without limitation, the following factors: existing short-term or long-term market rates for securities, the interest on which is excluded from gross income for federal income tax purposes; indexes of such short-term or long-term rates and the existing market supply and demand for securities bearing such short-term or long-term rates; existing yield curves for short-term or long-term securities for obligations of credit quality comparable to the Bonds, the interest on which is excluded from gross income for federal income tax purposes; general economic conditions; industry economic and financial conditions that may affect or be relevant to the Bonds; and such other facts, circumstances and conditions as the Remarketing Agent, in its sole discretion, determines to be relevant.

“*Purchase Date*” means any date on which Bonds are to be purchased on the demand of the registered owners thereof or are subject to mandatory purchase as described in the Indenture.



“*Reimbursement Agreement*” means a reimbursement agreement between the Company and the Credit Facility Issuer, as the same may be amended from time to time, and any other agreement between the Company and a Credit Facility Issuer, setting forth the obligations of the Company to such Credit Facility Issuer arising out of any payments under such Credit Facility and which provides that it will be deemed to be a Reimbursement Agreement for the purpose of the Indenture.

“*Semi-Annual Rate Period*” means the period beginning on, and including, the Conversion Date to the Semi-Annual Rate, and ending on, and including, the day preceding the first Interest Payment Date thereafter and each successive six-month period thereafter beginning on and including an Interest Payment Date and ending on and including the day next preceding the next Interest Payment Date until the day preceding the earlier of the Conversion to a different Interest Rate Mode or the maturity of the Bonds.

“*Weekly Rate Period*” means the period beginning on, and including, the Conversion Date to the Weekly Rate, and ending on, and including, the next Tuesday, and thereafter the period beginning on, and including, each Wednesday and ending on, and including, the earliest of the next Tuesday, the day preceding the Conversion to a different Interest Rate Mode or the maturity of the Bonds.

### **Summary of Certain Provisions of the Bonds**

The following table summarizes, for each of the permitted Interest Rate Modes (except the Dutch Auction Rate): the dates on which interest will be paid (*Interest Payment Dates*); the dates on which each interest rate will be determined (*Interest Rate Determination Dates*); the period of time (*Interest Rate Periods*) each interest rate will be in effect (provided that the initial Interest Rate Period for each Interest Rate Mode may begin on a different date from that specified, which date will be the Conversion Date or the date of a change in the Long Term Rate, as applicable); the dates on which registered owners may tender their Bonds for purchase to the Tender Agent and the notice requirements therefor (provided that while the Bonds are held in book-entry-only form, all notices of tender for purchase will be given by Beneficial Owners in the manner described under “— Purchases of Bonds on Demand of Owner — Notice Required for Purchases”) (*Purchase on Demand of Owner; Required Notice*); the dates on which the Bonds are subject to mandatory tender for purchase (*Mandatory Purchase Dates*); the redemption provisions applicable to the Bonds (*Redemption*); the notice requirements for redemption and mandatory tender for purchase (*Notices of Redemption and Mandatory Purchases*); and the manner by which registered owners will receive payments of principal, interest, redemption price and purchase price (*Manner of Payment*). All times stated are New York City time.

	<u>FLEXIBLE RATE</u>	<u>DAILY RATE</u>	<u>WEEKLY RATE</u>
<b>Interest Payment Dates</b>	With respect to any Bond, the last day of each Flexible Rate Period (or if such day is not a Business Day, the next succeeding Business Day).	The first Business Day of each calendar month.	The first Business Day of each calendar month.
<b>Interest Rate Determination Dates</b>	For each Bond, not later than 12:00 noon on the first day of each Flexible Rate Period for such Bond.	Not later than 9:30 a.m. on each Business Day.	Not later than 4:00 p.m. on the day preceding each Weekly Rate Period or, if not a Business Day, on the next preceding Business Day.
<b>Interest Rate Periods</b>	For each Bond, each Flexible Rate Period will be of a duration designated by the Remarketing Agent of one day to 364 days (or lower maximum number as specified in the Indenture); must end on a day immediately prior to a Business Day.	From and including each Business Day to but not including the next Business Day.	From and including each Wednesday to and including the following Tuesday.
<b>Purchase on Demand of Owner; Required Notice*</b>	No purchase on demand of the owner.	Any Business Day; by written or telephonic notice, promptly confirmed in writing, to the Tender Agent by 10:00 a.m. on such Business Day.	Any Business Day; by written notice to the Tender Agent not later than 5:00 p.m. on a Business Day at least seven days prior to the Purchase Date.
<b>Mandatory Purchase Dates</b>	Any Conversion Date; with respect to each Bond, on each Interest Payment Date for such Bond; and upon delivery, cancellation, substitution, termination or expiration of any Credit Facility or replacement with Alternate Credit Facility.	Any Conversion Date; and upon delivery, cancellation, substitution, termination or expiration of any Credit Facility or replacement with Alternate Credit Facility.	Any Conversion Date; and upon delivery, cancellation, substitution, termination or expiration of any Credit Facility or replacement with Alternate Credit Facility.
<b>Redemption</b>	Optional at par on any Interest Payment Date; Extraordinary Optional and Mandatory at par, on any Business Day (other than extraordinary optional	Optional, Extraordinary Optional and Mandatory at par on any Business Day.	Optional, Extraordinary Optional and Mandatory at par on any Business Day.

\* So long as DTC or its nominee is the registered owner of the Bonds, notices of redemption and mandatory purchases shall be sent to Cede & Co., payments of principal, redemption and purchase price of and interest on the Bonds will be paid through the facilities of DTC and notices of mandatory purchases may be given not less than five days prior to the Purchase Date. See “— Book-Entry-Only System” below.

	<u>FLEXIBLE RATE</u>	<u>DAILY RATE</u>	<u>WEEKLY RATE</u>
	redemption as a result of damage, destruction or condemnation which will be on an Interest Payment Date).		
<b>Notices of Conversion, Redemption and Mandatory Purchases *</b>	Not fewer than 15 days (30 days notice of Conversion to the Semi-Annual, Annual or Long Term Rate) or greater than 45 days. No notice of mandatory purchase following end of each Flexible Rate Period.	Not fewer than 15 days (30 days notice of Conversion to the Semi-Annual, Annual or Long Term Rate) or greater than 45 days.	Not fewer than 15 days (30 days notice of Conversion to the Semi-Annual, Annual or Long Term Rate) or greater than 45 days.
<b>Manner of Payment *</b>	Principal or redemption price upon surrender of the Bond to the Paying Agent; purchase price upon surrender of the Bond to the Tender Agent.	Principal or redemption price upon surrender of the Bond to the Paying Agent; purchase price upon surrender of the Bond to the Tender Agent.	Principal or redemption price upon surrender of the Bond to the Paying Agent; purchase price upon surrender of the Bond to the Tender Agent.
<b>Interest Payment Date</b>	Each April 1 and October 1.	Each April 1 and October 1.	Each April 1 and October 1; any Conversion Date; and the effective date of any change to a new Long Term Rate Period.
<b>Interest Rate Determination Dates</b>	Not later than 2:00 p.m. on the Business Day preceding the first day of the Semi-Annual Rate Period.	Not later than 12:00 noon on the Business Day preceding the first day of the Annual Rate Period.	Not later than 12:00 noon on the Business Day preceding the first day of the Long Term Rate Period.
<b>Interest Rate Periods</b>	Each six-month period from and including each April 1 and October 1 to and including the day preceding the next Interest Payment Date.	Each period from and including the Conversion Date to the Annual Rate to and including the day immediately preceding the second Interest Payment Date thereafter and each successive twelve month period thereafter.	Each period designated by the Company of more than one year in duration and which is an integral multiple of six months, from and including the first day of such period (April 1 and October 1) to and including the day immediately preceding the last Interest Payment Date for that period.
<b>Purchase on Demand of Owner; Required Notice*</b>	On any Interest Payment Date; by written notice to the Tender Agent on any Business Day not later than the fifteenth day prior to the	On the final Interest Payment Date for the Annual Rate Period; by written notice to the Tender Agent on any	On the final Interest Payment Date for the Long Term Rate Period; by written notice to the Tender Agent on a

\* So long as DTC or its nominee is the registered owner of the Bonds, notices of redemption and mandatory purchases shall be sent to Cede & Co., payments of principal, redemption and purchase price of and interest on the Bonds will be paid through the facilities of DTC and notices of mandatory purchase may be given not less than five days prior to the Purchase Date. See “— Book-Entry-Only System” below.

	<u>FLEXIBLE RATE</u>	<u>DAILY RATE</u>	<u>WEEKLY RATE</u>
	Purchase Date.	Business Day not later than the fifteenth day prior to the Purchase Date.	Business Day not later than the fifteenth day prior to the Purchase Date.
<b>Mandatory Purchase Dates</b>	Any Conversion Date; the first Business Day after the end of each Semi-Annual Rate Period; and upon delivery, cancellation, substitution, termination or expiration of any Credit Facility or replacement with Alternate Credit Facility.	Any Conversion Date; the first Business Day after the end of each Annual Rate Period; and upon delivery, cancellation, substitution, termination or expiration of any Credit Facility or replacement with Alternate Credit Facility.	Any Conversion Date; the first Business Day after the end of each Long Term Rate Period; the effective date of a change of Long Term Rate Period; and upon delivery, cancellation, substitution, termination or expiration of any Credit Facility or replacement with Alternate Credit Facility.
<b>Redemption</b>	Optional at par on any Interest Payment Date; Extraordinary Optional and Mandatory at par, on any Business Day (other than extraordinary optional redemption as a result of damage, destruction or condemnation which will be on an Interest Payment Date).	Optional at par on the final Interest Payment Date; Extraordinary Optional and Mandatory at par, on any Business Day.	Optional at times and prices dependent on the length of the Long Term Rate Period; Extraordinary Optional and Mandatory at par, on any Business Day.
<b>Notices of Conversion, Redemption and Mandatory Purchases*</b>	Not fewer than 15 days (30 days for notice of Conversion or redemption) or greater than 45 days.	Not fewer than 15 days (30 days for notice of Conversion or redemption) or greater than 45 days.	Not fewer than 15 days (30 days for notice of Conversion or redemption) or greater than 45 days.
<b>Manner of Payment*</b>	Principal or redemption price upon surrender of the Bond to the Paying Agent; interest by check mailed to the registered owners or, upon request of registered owner, of \$1,000,000 or more of an individual issue of Bonds, in immediately available funds; purchase price upon surrender of the Bond to the Tender Agent.	Principal or redemption price upon surrender of the Bond to the Paying Agent; interest by check mailed to the registered owners or, upon request of registered owner, of \$1,000,000 or more of an individual issue of Bonds, in immediately available funds; purchase price upon surrender of the Bond to the Tender Agent.	Principal or redemption price upon surrender of the Bond to the Paying Agent; interest by check mailed to the registered owners or, upon request of registered owner, of \$1,000,000 or more of an individual issue of Bonds, in immediately available funds; purchase price upon surrender of the Bond to the Tender Agent.

\* So long as DTC or its nominee is the registered owner of the Bonds, notices of redemption and mandatory purchases shall be sent to Cede & Co., payments of principal, redemption and purchase price of and interest on the Bonds will be paid through the facilities of DTC and notices of mandatory purchase may be given not less than five days prior to the Purchase Date. See “— Book -Entry-Only System” below.

## Determination of Interest Rates for Interest Rate Modes

Daily Rate. If the Interest Rate Mode for the Bonds is the Daily Rate, the interest rate on the Bonds for any Business Day will be the rate established by the Remarketing Agent no later than 9:30 a.m. (New York City time) on such Business Day as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell the Bonds on such Business Day at a price equal to the principal amount thereof, plus accrued interest, if any, thereon. For any day which is not a Business Day or if the Remarketing Agent does not give notice of a change in the interest rate, the interest rate on the Bonds will be the interest rate in effect for the immediately preceding Business Day.

Weekly Rate. If the Interest Rate Mode for the Bonds is the Weekly Rate, the interest rate on the Bonds for a particular Weekly Rate Period will be the rate established by the Remarketing Agent no later than 4:00 p.m. (New York City time) on the day preceding such Weekly Rate Period or, if such day is not a Business Day, on the next preceding Business Day, as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell the Bonds on such first day at a price equal to the principal amount thereof, plus accrued interest, if any, thereon.

Flexible Rates and Flexible Rate Periods. If the Interest Rate Mode for the Bonds is the Flexible Rate, the interest rate on a Bond for a specific Flexible Rate Period will be the rate established by the Remarketing Agent no later than 12:00 noon (New York City time) on the first day of that Flexible Rate Period as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell such Bond on that day at a price equal to the principal amount thereof. Each Flexible Rate Period applicable for a Bond will be determined separately by the Remarketing Agent on or prior to the first day of such Flexible Rate Period as being the Flexible Rate Period permitted under the Indenture which, in the judgment of the Remarketing Agent, taking into account then Prevailing Market Conditions, will, with respect to such Bond, ultimately produce the lowest overall interest cost on the Bonds while the Interest Rate Mode for the Bonds is the Flexible Rate. Each Flexible Rate Period will be from one day to 364 days in length and will end on a day preceding a Business Day. If the Remarketing Agent fails to set the length of a Flexible Rate Period for any Bond, a new Flexible Rate Period lasting to, but not including, the next Business Day (or until the earlier Conversion or maturity of the Bonds) will be established automatically in accordance with the Indenture.

Semi-Annual Rate. If the Interest Rate Mode for the Bonds is the Semi-Annual Rate, the interest rate on the Bonds for a particular Semi-Annual Rate Period will be the rate established by the Remarketing Agent no later than 2:00 p.m. (New York City time) on the Business Day immediately preceding the first day of such Semi-Annual Rate Period as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell the Bonds on such first day at a price equal to the principal amount thereof.

Annual Rate. If the Interest Rate Mode for the Bonds is the Annual Rate, the interest rate on the Bonds for a particular Annual Rate Period will be the rate of interest established by the Remarketing Agent no later than 12:00 noon (New York City time) on the Business Day preceding the first day of such Annual Rate Period as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell the Bonds on such first day at a price equal to the principal amount thereof.

Dutch Auction Rate. If the Interest Rate Mode for the Bonds is the Dutch Auction Rate, the interest rate on the Bonds for a particular Dutch Auction Rate Period will be the rate established in accordance with the procedures set forth in the Indenture.

Long Term Rates and Long Term Rate Periods. If the Interest Rate Mode for the Bonds is the Long Term Rate, the interest rate on the Bonds for a particular Long Term Rate Period will be the rate established by the Remarketing Agent no later than 12:00 noon (New York City time) on the Business Day preceding the first day of such Long Term Rate Period as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell the Bonds on such first day at a price equal to the principal amount thereof. The Company will establish the duration of the Long Term Rate Period at the time that it directs the Conversion of the Interest Rate Mode to the Long Term Rate, and thereafter each successive Long Term Rate Period will be the same as the Long Term Rate Period so established by the Company until a different Long Term Rate Period is specified by the Company in accordance with the Indenture (in which case the duration of that Long Term Rate Period will control succeeding Long Term Rate Periods), subject in all cases to the occurrence of a Conversion Date or the maturity of the Bonds. Each Long Term Rate Period will be more than one year in duration, will be for a period which is an integral multiple of six months and will end on the day next preceding an Interest Payment Date; provided that if a Long Term Rate Period commences on a date other than an April 1 or October 1, such Long Term Rate Period may be for a period which is not an integral multiple of six months but will be of a duration as close as possible to (but not in excess of) such Long Term Rate Period established by the Company and will terminate on a day preceding an Interest Payment Date, and each successive Long Term Rate Period thereafter will be for the full period established by the Company until a different Long Term Rate Period is specified by the Company in accordance with the Indenture or until the occurrence of a Conversion Date or the maturity of the Bonds; provided further that no Long Term Rate Period will extend beyond the final maturity date of the Bonds.

Failure to Determine Rate. If for any reason the interest rate for a Bond is not determined by the Remarketing Agent, except as described below under “— Conversion of Interest Rate Modes and Changes of Long Term Rate Periods — Change of Long Term Rate Period” and “— Cancellation of Conversion of Interest Rate Mode,” the interest rate for such Bond for the next succeeding interest rate period will be the interest rate in effect for such Bond for the preceding interest rate period and, pursuant to the terms of the Indenture, there will be no change in the then applicable Long Term Rate Period or any Conversion from the then applicable Interest Rate Mode. Notwithstanding the foregoing, if for any reason the interest rate for a Bond bearing interest at a Flexible Rate is not determined by the Remarketing Agent, the interest rate for such Bond for the next succeeding Interest Period will be equal to The Bond

Market Association Municipal Swap Index™ (the “Municipal Index”) as defined in the Indenture and the Interest Period for such Bond will extend through the day preceding the next Business Day, until the Trustee is notified of a new Flexible Rate and Flexible Rate Period determined for such Bond by the Remarketing Agent.

### **Conversion of Interest Rate Modes and Changes of Long Term Rate Periods**

Method of Conversion. The Interest Rate Mode for the Bonds is subject to Conversion from time to time, in whole but not in part, on the dates specified below under “— Limitations on Conversion,” at the option of the Company, upon notice from the Bond Registrar to the registered owners of the Bonds, as described below. With any notice of Conversion, the Company must also deliver to the Bond Registrar and the Credit Facility Issuer an opinion of Bond Counsel stating that such Conversion is authorized or permitted by the Act and is authorized by the Indenture and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes, other than a Conversion from the Daily Rate Period to the Weekly Rate Period or from the Weekly Rate Period to the Daily Rate Period.

Conditions Precedent to Conversions. The following conditions are applicable to Conversions of the Bonds:

(a) any Credit Facility to be held by the Trustee after the Conversion Date must be sufficient to cover the principal of and accrued interest on the outstanding Bonds for the maximum Interest Period permitted for that particular Interest Rate Mode plus 10 days at the maximum interest rate, and if a Credit Facility is to be held by the Trustee after the Conversion of the Bonds to a Long Term Rate Period, that Credit Facility must also extend for the entire Long Term Rate Period plus 10 days at the maximum interest rate; and

(b) if a Credit Facility is then in effect and the purchase price of the Bonds under the Indenture includes any premium, the Trustee will be entitled to draw on that Credit Facility in an aggregate amount sufficient to pay the applicable purchase price (including such premium) or, in the alternative, available moneys will be available in the necessary amount and are applied to the payment of such premium.

Limitations on Conversion. Any Conversion of the Interest Rate Mode for the Bonds must be in compliance with the following conditions: (i) the Conversion Date must be a date on which the Bonds are subject to optional redemption (see “— Redemptions — Optional Redemption” below); provided that any Conversion from the Daily Rate Period to a Weekly Rate Period or from the Weekly Rate Period to the Daily Rate Period must be on a Wednesday and, if the Conversion is to or from a Dutch Auction Rate Period, the Conversion Date must be the last Interest Payment Date in respect of that Dutch Auction Rate Period; (ii) if the proposed Conversion Date would not be an Interest Payment Date but for the Conversion, the Conversion Date must be a Business Day; (iii) if the Conversion is from the Flexible Rate, (a) the Conversion Date may be no earlier than the latest Interest Payment Date established prior to the giving of notice to the Remarketing Agent of such proposed Conversion and (b) no further Interest Payment Date may be established while the Interest Rate Mode is then the Flexible Rate if such Interest Payment Date would occur after the effective date of that Conversion; and (iv)



after a determination is made requiring mandatory redemption of all Bonds pursuant to the Indenture (see “— Redemptions” below), no change in the Interest Rate Mode may be made prior to such mandatory redemption.

Change of Long Term Rate Period. The Company may change from one Long Term Rate Period to another Long Term Rate Period on any Business Day on which the Bonds are subject to optional redemption as described under “— Redemptions — Optional Redemption” below upon notice from the Bond Registrar to the owners of Bonds as described below. With any notice of such change, the Company must also deliver an opinion of Bond Counsel stating that such change is authorized or permitted by the Act and is authorized by the Indenture and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. Notwithstanding the foregoing, the Long Term Rate Period will not be changed to a new Long Term Rate Period if (A) the Remarketing Agent has not determined the interest rate for the new Long Term Rate Period in accordance with the terms of the Indenture or (B) the Bond Registrar receives written notice from Bond Counsel prior to the effective date of the change to the effect that the opinion of such Bond Counsel required under the Indenture has been rescinded. Upon the occurrence of any of the events described in the preceding sentence, the Bonds will bear interest at the Weekly Rate commencing on the date which would have been the effective date of the proposed change of Long Term Rate Period, subject to the provisions described below under “— Cancellation of Conversion of Interest Rate Mode.”

Notice to Owners of Conversion of Interest Rate Mode or of Change of Long Term Rate Period. The Bond Registrar will notify each registered owner of the Conversion or change of Long Term Rate Period, as applicable, by first class mail at least 15 days (30 days in the case of Conversion from or to the Semi-Annual Rate, the Annual Rate or a Long Term Rate or in the case of a change in the Long Term Rate Period) but not more than 45 days before each Conversion Date or each effective date of a change in the Long Term Rate Period. The notice will state those matters required to be set forth therein under the Indenture.

Cancellation of Conversion of Interest Rate Mode. Notwithstanding the foregoing, no Conversion will occur if (A) the Remarketing Agent has not determined the initial interest rate for the new Interest Rate Mode in accordance with the terms of the Indenture, (B) the Bonds that are to be purchased are not remarketed or sold by the Remarketing Agent or (C) the Bond Registrar receives written notice from Bond Counsel prior to the opening of business on the effective date of Conversion to the effect that the opinion of such Bond Counsel required under the Indenture has been rescinded. If such Conversion fails to occur, such Bonds in the Dutch Auction Rate will remain in such Interest Rate Mode and Bonds in any other Interest Rate Mode will automatically be converted to the Weekly Rate (with the first period adjusted in length so that the last day of such period will be a Tuesday) at the rate determined by the Remarketing Agent on the failed Conversion Date; provided, that there must be delivered to the Issuer, the Trustee, the Tender Agent, the Company, the Credit Facility Issuer and the Remarketing Agent an opinion of Bond Counsel to the effect that determining the interest rate to be borne by the Bonds at a Weekly Rate is authorized or permitted by the Act and is authorized under the Indenture and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. If such opinion is not delivered on the failed Conversion Date, the Bonds will bear interest for a Rate Period of the same type and of substantially the same length as the Rate Period in effect prior to the failed Conversion Date at a rate of interest

determined by the Remarketing Agent on the failed Conversion Date (or if shorter, the Rate Period ending on the date before the maturity date); provided that if the Bonds then bear interest at the Long Term Rate, and if such opinion is not delivered on the date which would have been the effective date of a new Long Term Rate Period, the Bonds will bear interest at the Annual Rate, commencing on such date, at an Annual Rate determined by the Remarketing Agent on such date. If the proposed Conversion of Bonds fails as described herein, any mandatory purchase of such Bonds will remain effective.

#### **Purchases of Bonds on Demand of Owner**

If the Bonds are in the book-entry-only system, demands for purchase may be made by Beneficial Owners only through such Beneficial Owner's Direct Participant (as defined under the caption "—Book-Entry-Only System"). If the Bonds are in certificated form, demands for purchase may be made only by registered owners. When the Interest Rate Mode is the Dutch Auction Rate, the Bonds are not subject to purchase on demand of the owners thereof.

Daily Rate. If the Interest Rate Mode for the Bonds is the Daily Rate, any Bond will be purchased on the demand of the registered owner thereof on any Business Day during a Daily Rate Period at a purchase price equal to the principal amount thereof plus accrued interest, if any, to the Purchase Date upon written notice or telephonic notice (to be immediately confirmed in writing) to the Tender Agent at its principal office not later than 10:00 a.m. (New York City time) on such Business Day.

Weekly Rate. If the Interest Rate Mode for the Bonds is the Weekly Rate, any Bond will be purchased on the demand of the registered owner thereof on any Business Day during a Weekly Rate Period at a purchase price equal to the principal amount thereof plus accrued interest, if any, to the Purchase Date upon written notice to the Tender Agent at its principal office at or before 5:00 p.m. (New York City time) on a Business Day not later than the seventh day prior to the Purchase Date.

Semi-Annual Rate. If the Interest Rate Mode for the Bonds is the Semi-Annual Rate, any Bond will be purchased on the demand of the registered owner thereof on any Interest Payment Date for a Semi-Annual Rate Period at a purchase price equal to the principal amount thereof upon written notice to the Tender Agent at its principal office on a Business Day not later than the fifteenth day prior to such Purchase Date.

Annual Rate. If the Interest Rate Mode for the Bonds is the Annual Rate, any Bond will be purchased on the demand of the registered owner thereof on the final Interest Payment Date for such Annual Rate Period at a purchase price equal to the principal amount thereof upon written notice to the Tender Agent at its principal office on a Business Day not later than the fifteenth day prior to such Purchase Date.

Long Term Rate. If the Interest Rate Mode for the Bonds is the Long Term Rate, any Bond will be purchased on the demand of the registered owner thereof on the final Interest Payment Date for such Long Term Rate Period (unless such date is the final maturity date) at a purchase price equal to the principal amount thereof upon written notice to the Tender Agent at its principal office on a Business Day not later than the fifteenth day prior to such Purchase Date.

Limitations on Purchases on Demand of Owner. Notwithstanding the foregoing, there will be no purchase of (a) a portion of any Bond unless the portion to be purchased and the portion to be retained each will be in an authorized denomination or (b) any Bond upon the demand of the registered owner if an Event of Default under the Indenture with respect to the payment of principal of, interest on, or purchase price of, the Bonds has occurred and is continuing. Also, if the Interest Rate Mode for the Bonds is the Flexible Rate, the Bonds will not be subject to purchase on the demand of the registered owners thereof, but each Bond will be subject to mandatory purchase on each Conversion Date and on the Interest Payment Date with respect to such Bond, as described below under the caption “— Mandatory Purchases of Bonds.”

Notice Required for Purchases. Any written notice delivered to the Tender Agent by an owner demanding the purchase of Bonds must (A) be delivered by the time and dates specified above, (B) state the number and principal amount (or portion thereof) of such Bond to be purchased, (C) state the Purchase Date on which such Bond is to be purchased, (D) irrevocably request such purchase and state that the owner agrees to deliver such Bond, duly endorsed in blank for transfer, with all signatures guaranteed, to the Tender Agent at or prior to 11:00 a.m. (1:00 p.m. if a tender during a Daily Rate Period and 12:00 noon if a tender during a Weekly Rate Period) (New York City time) on such Purchase Date.

### **Mandatory Purchases of Bonds**

Mandatory Purchase on Conversion Dates or Change by the Company in Long Term Rate Period. The Bonds will be subject to mandatory purchase at a purchase price equal to the principal amount thereof, plus accrued interest, if any, to the Purchase Date, plus, if the Interest Rate Mode is the Long Term Rate, the redemption premium, if any, which would be payable as described under “— Redemptions — Optional Redemption” below, if the Bonds were redeemed (A) on the Purchase Date, (B) on each Conversion Date and (C) on the effective date of any change by the Company of the Long Term Rate Period. Such tender and purchase will be required even if the change in Long Term Rate Period or the Conversion is canceled pursuant to the Indenture.

Mandatory Purchase on Each Interest Payment Date for Flexible Rate Period. Whenever the Interest Rate Mode for the Bonds is the Flexible Rate, each Bond will be subject to mandatory purchase at a purchase price equal to the principal amount thereof, without premium, plus accrued interest, if any, to the Purchase Date, on each Interest Payment Date that interest on such Bond is payable at an interest rate determined for the Flexible Rate. Owners of Bonds will receive no notice of such mandatory purchase.

Mandatory Purchase on Day after End of the Semi-Annual Rate Period, the Annual Rate Period or the Long Term Rate Period. Whenever the Interest Rate Mode for the Bonds is the Semi-Annual Rate, the Annual Rate or the Long Term Rate, such Bonds will be subject to mandatory purchase on the Business Day following the end of each Semi-Annual Rate Period, Annual Rate Period or Long Term Rate Period, as the case may be, for such Bond at a purchase price equal to the principal amount thereof plus accrued interest, if any, to such date.

Mandatory Purchase upon Delivery, Cancellation, Substitution, Termination or Expiration of Any Credit Facility or Replacement with an Alternate Credit Facility. The Bonds

will be subject to mandatory tender for purchase at a purchase price equal to 100% of the principal amount thereof, plus accrued interest, if any, (A) on the Interest Payment Date at least five days prior to the date of the cancellation of or the expiration of the term of the then current Credit Facility and (B) on the Interest Payment Date on which a Credit Facility is replaced with an Alternate Credit Facility.

*Notice to Owners of Mandatory Purchases.* Notice to owners of a mandatory purchase of Bonds (except for mandatory purchase on each Interest Payment Date for Flexible Rate Periods) will be given by the Bond Registrar, by first class mail at least 15 days but not more than 45 days before the Purchase Date; provided, however, as an alternative to the foregoing, if DTC or its nominee is the registered owner of the Bonds, notice may be given to DTC not less than five days before the Purchase Date. The notice of mandatory purchase will state those matters required to be set forth therein under the Indenture. No notice of mandatory purchase will be given in connection with a mandatory purchase on an Interest Payment Date for a Flexible Rate Period.

### **Remarketing and Purchase of Bonds**

The Indenture provides that, subject to the terms of a Remarketing Agreement with the Company, the Remarketing Agent will use its reasonable best efforts to offer for sale Bonds purchased upon demand of the owners thereof and, unless otherwise instructed by the Company and with the consent of any Credit Facility Issuer, upon mandatory purchase, provided that Bonds will not be remarketed upon the occurrence and continuance of certain Events of Default under the Indenture, except in the sole discretion of the Remarketing Agent. Each such sale will be at a price equal to the principal amount thereof, plus interest accrued to the date of sale. The Remarketing Agent, the Trustee, the Paying Agent, the Bond Registrar or the Tender Agent each may purchase any Bonds offered for sale for its own account.

On each date Bonds are to be purchased pursuant to optional or mandatory purchase under the Indenture, such Bonds will be purchased from the following sources in the order of priority indicated, provided that funds derived from clause (c) may not be combined with the funds derived from clauses (a) or (b) to purchase any Bonds:

(a) proceeds of the remarketing of such Bonds to persons other than the Company, its affiliates or the Issuer and furnished to the Tender Agent by the Remarketing Agent and deposited directly into, and held in, the Remarketing Proceeds Subaccount of the Purchase Fund established with the Tender Agent under the Indenture;

(b) proceeds of the Credit Facility, if any, furnished by the Trustee, as Tender Agent, and deposited by the Tender Agent directly into, and held in, the Credit Facility Subaccount of the Purchase Fund; and

(c) moneys paid by the Company (including the proceeds of the remarketing of the Bonds to the Company, its affiliates or the Issuer) to pay the purchase price to the Tender Agent.

If there is no Credit Facility in operation to secure the Bonds, any Bonds will be purchased with any moneys made available by the Company, including proceeds from the remarketing of the Bonds.

### **Payment of Purchase Price**

When a book-entry-only system is not in effect, payment of the purchase price of any Bond will be payable (and delivery of a replacement Bond in exchange for the portion of any Bond not purchased if such Bond is purchased in part will be made) on the Purchase Date upon delivery of such Bond to the Tender Agent on such Purchase Date; provided that such Bond must be delivered to the Tender Agent: (i) at or prior to 12:00 noon (New York City time), in the case of Bonds delivered for purchase during a Weekly Rate Period or Flexible Rate Period, (ii) at or prior to 1:00 p.m. (New York City time), in the case of Bonds delivered for purchase during a Daily Rate Period or (iii) at or prior to 11:00 a.m. (New York City time), in the case of Bonds delivered for purchase during a Semi-Annual Rate Period, Annual Rate Period or Long Term Rate Period. If the date of such purchase is not a Business Day, the purchase price will be payable on the next succeeding Business Day.

Any Bond delivered for payment of the purchase price must be accompanied by an instrument of transfer thereof in form satisfactory to the Tender Agent executed in blank by the registered owner thereof and with all signatures guaranteed. The Tender Agent may refuse to accept delivery of any Bond for which an instrument of transfer satisfactory to it has not been provided and has no obligation to pay the purchase price of such Bond until a satisfactory instrument is delivered.

If the registered owner of any Bond (or portion thereof) that is subject to purchase pursuant to the Indenture fails to deliver such Bond with an appropriate instrument of transfer to the Tender Agent for purchase on the Purchase Date, and if the Tender Agent is in receipt of the purchase price therefor, such Bond (or portion thereof) nevertheless will be deemed purchased on the Purchase Date thereof. Any owner who so fails to deliver such Bond for purchase on (or before) the Purchase Date will have no further rights thereunder, except the right to receive the purchase price thereof from those moneys deposited with the Tender Agent in the Purchase Fund pursuant to the Indenture upon presentation and surrender of such Bond to the Tender Agent properly endorsed for transfer in blank with all signatures guaranteed.

When a book-entry-only system is in effect, the requirement for physical delivery of the Bonds will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on the records of DTC to the participant account of the Tender Agent.

### **Redemptions**

#### Optional Redemption.

(a) Whenever the Interest Rate Mode for the Bonds is the Daily Rate or the Weekly Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof, plus interest accrued, if any, to the redemption date, on any Business Day.

(b) Whenever the Interest Rate Mode for a Bond is the Flexible Rate, such Bond will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof on any Interest Payment Date for that Bond.

(c) Whenever the Interest Rate Mode for the Bonds is the Dutch Auction Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, on the Business Day immediately succeeding any auction date, at a redemption price of 100% of the principal amount thereof, together with accrued interest to the redemption date.

(d) Whenever the Interest Rate Mode for the Bonds is the Semi-Annual Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof on any Interest Payment Date.

(e) Whenever the Interest Rate Mode for the Bonds is the Annual Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof on the final Interest Payment Date for each Annual Rate Period.

(f) Whenever the Interest Rate Mode for the Bonds is the Long Term Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, (1) on the final Interest Payment Date for the then-current Long Term Rate Period at a redemption price of 100% of the principal amount thereof and (2) prior to the end of the then-current Long Term Rate Period at any time during the redemption periods and at the redemption prices set forth below, plus in each case interest accrued, if any, to the redemption date:

<b>Original Length of Current Long Term Rate Period (Years)</b>	<b>Commencement of Redemption Period</b>	<b>Redemption Price as Percentage of Principal</b>
More than or equal to 11 years	First Interest Payment Date on or after the tenth anniversary of commencement of Long Term Rate Period	100%
Less than 11 years	Non-callable	Non-callable

Subject to certain conditions, including provision of an opinion of Bond Counsel that a change in the redemption provisions of the Bonds will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes, the redemption periods and redemption prices may be revised, effective as of the Conversion Date, the date of a change in the Long Term Rate Period or a Purchase Date on the final Interest Payment Date during a Long Term Rate Period, to reflect Prevailing Market Conditions on such date as determined by the Remarketing Agent in its judgment.

Extraordinary Optional Redemption in Whole. The Bonds may be redeemed by the Issuer in whole at any time at 100% of the principal amount thereof plus accrued interest to the redemption date upon the exercise by the Company of an option under the Loan Agreement to prepay the loan if any of the following events shall have occurred within 180 days preceding the giving of written notice by the Company to the Trustee of such election:

(i) if in the judgment of the Company, unreasonable burdens or excessive liabilities have been imposed upon the Company after the issuance of the Bonds with respect to the Project or the operation thereof, including without limitation federal, state or other ad valorem property, income or other taxes not imposed on the date of the Loan Agreement, other than ad valorem taxes levied upon privately owned property used for the same general purpose as the Project;

(ii) if the Project or a portion thereof or other property of the Company in connection with which the Project is used has been damaged or destroyed to such an extent so as, in the judgment of the Company, to render the Project or such other property of the Company in connection with which the Project is used unsatisfactory to the Company for its intended use, and such condition continues for a period of six months;

(iii) there has occurred condemnation of all or substantially all of the Project or the taking by eminent domain of such use or control of the Project or other property of the Company in connection with which the Project is used so as, in the judgment of the Company, to render the Project or such other property of the Company unsatisfactory to the Company for its intended use;

(iv) in the event changes, which the Company cannot reasonably control, in the economic availability of materials, supplies, labor, equipment or other properties or things necessary for the efficient operation of the generating station where the Project is located have occurred, which, in the judgment of the Company, render the continued operation of such generating station or any generating unit at such station uneconomical; or changes in circumstances after the issuance of the Bonds, including but not limited to changes in solid waste abatement, control and disposal requirements, have occurred such that the Company determines that use of the Project is no longer required or desirable;

(v) the Loan Agreement has become void or unenforceable or impossible of performance by reason of any changes in the Constitution of the Commonwealth of Kentucky or the Constitution of the United States of America or by reason of legislative or administrative action (whether state or federal) or any final decree, judgment or order of any court or administrative body, whether state or federal; or

(vi) a final order or decree of any court or administrative body after the issuance of the Bonds requires the Company to cease a substantial part of its operation at the generating station where the Project is located to such extent that the Company will be prevented from carrying on its normal operations at such generating station for a period of six months.



Extraordinary Optional Redemption in Whole or in Part. The Bonds are also subject to redemption in whole or in part at 100% of the principal amount thereof plus accrued interest to the redemption date at the option of the Company in an amount not to exceed the net proceeds received from insurance or any condemnation award received by the Issuer or the Company in the event of damage, destruction or condemnation of all or a portion of the Project, subject to receipt of an opinion of Bond Counsel that such redemption will not adversely affect the exclusion of interest on any of the Bonds from gross income for federal income tax purposes, and such net proceeds must be applied to reimburse the Credit Facility Issuer for drawings under the Credit Facility to redeem the Bonds. See “Summary of the Loan Agreement — Maintenance; Damage, Destruction and Condemnation.” Such redemption may occur at any time, provided that if such event occurs while the Interest Rate Mode for the Bonds is the Daily Rate, Weekly Rate, Flexible Rate or Semi-Annual Rate, such redemption must occur on a date on which the Bonds are otherwise subject to optional redemption as described above.

Mandatory Redemption; Determination of Taxability. The Bonds are required to be redeemed by the Issuer, in whole, or in such part as described below, at a redemption price equal to 100% of the principal amount thereof, without redemption premium, plus accrued interest, if any, to the redemption date, within 180 days following a “Determination of Taxability.” As used herein, a “Determination of Taxability” means the receipt by the Trustee of written notice from a current or former registered owner of a Bond or from the Company or the Issuer of (A) the issuance of a published or private ruling or a technical advice memorandum by the Internal Revenue Service in which the Company participated or has been given the opportunity to participate, and which ruling or memorandum the Company, in its discretion, does not contest or from which no further right of administrative or judicial review or appeal exists, or (B) a final determination from which no further right of appeal exists of any court of competent jurisdiction in the United States in a proceeding in which the Company has participated or has been a party, or has been given the opportunity to participate or be a party, in each case, to the effect that as a result of a failure by the Company to perform or observe any covenant or agreement or the inaccuracy of any representation contained in the Loan Agreement or any other agreement or certificate delivered in connection with the Bonds, the interest on the Bonds is included in the gross income of the owners thereof for federal income tax purposes, other than with respect to a person who is a “substantial user” or a “related person” of a substantial user within the meaning of the Section 147 of Internal Revenue Code of 1986, as amended (the “Code”); provided, however, that no such Determination of Taxability shall be considered to exist as a result of the Trustee receiving notice from a current or former registered owner of a Bond or from the Issuer unless (A) the Issuer or the registered owner or former registered owner of the Bond involved in such proceeding or action (1) gives the Company and the Trustee prompt notice of the commencement thereof, and (2) (if the Company agrees to pay all expenses in connection therewith) offers the Company the opportunity to control unconditionally the defense thereof, and (B) either (1) the Company does not agree within 30 days of receipt of such offer to pay such expenses and liabilities and to control such defense, or (2) the Company shall exhaust or choose not to exhaust all available proceedings for the contest, review, appeal or rehearing of such decree, judgment or action which the Company determines to be appropriate. No Determination of Taxability described above will result from the inclusion of interest on any Bond in the computation of minimum or indirect taxes. All of the Bonds are required to be redeemed upon a Determination of Taxability as described above unless, in the opinion of Bond Counsel, redemption of a portion of such Bonds would have the result that interest payable on the

remaining Bonds outstanding after the redemption would not be so included in any such gross income.

In the event any of the Issuer, the Company or the Trustee has been put on notice or becomes aware of the existence or pendency of any inquiry, audit or other proceedings relating to the Bonds being conducted by the Internal Revenue Service, the party so put on notice is required to give immediate written notice to the other parties of such matters. Promptly upon learning of the occurrence of a Determination of Taxability (whether or not the same is being contested), or any of the events described above, the Company is required to give notice thereof to the Trustee and the Issuer.

If the Internal Revenue Service or a court of competent jurisdiction determines that the interest paid or to be paid on any Bond (except to a “substantial user” of the Project or a “related person” within the meaning of Section 147(a) of the Code) is or was includable in the gross income of the recipient for federal income tax purposes for reasons other than as a result of a failure by the Company to perform or observe any of its covenants, agreements or representations in the Loan Agreement or any other agreement or certificate delivered in connection therewith, the Bonds are not subject to redemption. In such circumstances, Bondholders would continue to hold their Bonds, receiving principal and interest at the applicable rate as and when due, but would be required to include such interest payments in gross income for federal income tax purposes. Also, if the lien of the Indenture is discharged or defeased prior to the occurrence of a final Determination of Taxability, Bonds will not be redeemed as described herein.

General Redemption Terms. So long as a Credit Facility is in effect in respect of the Bonds, the redemption price (including accrued interest) will be paid from drawings under such Credit Facility or from moneys which otherwise constitute Available Moneys under the Indenture. Notice of redemption will be given by mailing a redemption notice by first class mail to the registered owners of the Bonds to be redeemed not less than 30 days (15 days if the Interest Rate Mode for the Bonds is the Dutch Auction Rate, Flexible Rate, Daily Rate or Weekly Rate) but not more than 45 days prior to the redemption date. Any notice mailed as provided in the Indenture will be conclusively presumed to have been given, irrespective of whether the owner receives the notice. Failure to give any such notice by mailing or any defect therein in respect of any Bond will not affect the validity of any proceedings for the redemption of any other Bond. No further interest will accrue on the principal of any Bond called for redemption after the redemption date if funds sufficient for such redemption have been deposited with the Paying Agent as of the redemption date. If the provisions for discharging the Indenture set forth below under the caption, “Summary of the Indenture — Discharge of the Indenture” have not been complied with, any redemption notice will state that it is conditional on there being sufficient moneys to pay the full redemption price for the Bonds to be redeemed. So long as the Bonds are held in book-entry-only form, all redemption notices will be sent only to Cede & Co.

## Book-Entry-Only System

*Portions of the following information concerning DTC and DTC's book-entry-only system have been obtained from DTC. The Issuer, the Company and the Remarketing Agent make no representation as to the accuracy of such information.*

Initially, DTC will act as securities depository for the Bonds and the Bonds initially will be issued solely in book-entry-only form to be held under DTC's book-entry-only system, registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered bond in the aggregate principal amount of the Bonds will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934 (the "Exchange Act"). DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants" and, together with "Direct Participants," "Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the SEC. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct or Indirect Participants acting on behalf of Beneficial Owners.

Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Issuer or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, the Company or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Tender Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the

Tender Agent. The requirement for physical delivery of Bonds in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Tender Agent's DTC account.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Issuer, the Company, the Tender Agent and the Trustee, or the Issuer, at the request of the Company, may remove DTC as the securities depository for the Bonds. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be delivered as described in the Indenture (see "— Revision of Book-Entry-Only System; Replacement Bonds" below). The Beneficial Owner, upon registration of certificates held in the Beneficial Owner's name, will become the registered owner of the Bonds.

So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the registered owners of the Bonds will mean Cede & Co. and will not mean the Beneficial Owners. Under the Indenture, payments made by the Trustee to DTC or its nominee will satisfy the Issuer's obligations under the Indenture, the Company's obligations under the Loan Agreement, to the extent of the payments so made. Beneficial Owners will not be, and will not be considered by the Issuer or the Trustee to be, and will not have any rights as, owners of Bonds under the Indenture.

The Trustee and the Issuer, so long as a book-entry-only system is used for the Bonds, will send any notice of redemption or of proposed document amendments requiring consent of registered owners and any other notices required by the document (including notices of Conversion and mandatory purchase) to be sent to registered owners only to DTC (or any successor securities depository) or its nominee. Any failure of DTC to advise any Direct Participant, or of any Direct Participant or Indirect Participant to notify the Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Bonds called for redemption, the document amendment, the Conversion, the mandatory purchase or any other action premised on that notice.

The Issuer, the Company, the Trustee and the Remarketing Agent cannot and do not give any assurances that DTC will distribute payments on the Bonds made to DTC or its nominee as the registered owner or any redemption or other notices, to the Participants, or that the Participants or others will distribute such payments or notices to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will serve and act in the manner described in this Reoffering Circular.

THE ISSUER, THE COMPANY, THE REMARKETING AGENT AND THE TRUSTEE WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE TRUSTEE AS BEING A REGISTERED OWNER WITH RESPECT TO: (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (2) THE PAYMENT OF ANY AMOUNT DUE BY DTC TO ANY DIRECT PARTICIPANT OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO

ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OR REDEMPTION OR PURCHASE PRICE OF OR INTEREST ON THE BONDS; (3) THE DELIVERY OF ANY NOTICE BY DTC TO ANY DIRECT PARTICIPANT OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED TO BE GIVEN TO REGISTERED OWNERS UNDER THE TERMS OF THE INDENTURE; (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS REGISTERED OWNER.

*Revision of Book-Entry-Only System; Replacement Bonds.* In the event that DTC determines not to continue as securities depository or is removed by the Issuer, at the direction of the Company, as securities depository, the Issuer, at the direction of the Company, may appoint a successor securities depository reasonably acceptable to the Trustee. If the Issuer does not or is unable to appoint a successor securities depository, the Issuer will issue and the Trustee will authenticate and deliver fully registered Bonds, in authorized denominations, to the assignees of DTC or their nominees.

In the event that the book-entry-only system is discontinued, the following provisions will apply. The Bonds may be issued in denominations of \$25,000 and integral multiples thereof, if the Interest Rate Mode is the Dutch Auction Rate; in denominations of \$5,000 and integral multiples thereof, if the Interest Rate Mode is the Semi-Annual Rate, the Annual Rate or the Long Term Rate; in denominations of \$100,000 and integral multiples of \$5,000 in excess thereof, if the Interest Rate Mode is the Flexible Rate; and in denominations of \$100,000 and integral multiples thereof, if the Interest Rate Mode is the Daily Rate or the Weekly Rate. Bonds may be transferred or exchanged for an equal total amount of Bonds of other authorized denominations upon surrender of such Bonds at the principal office of the Bond Registrar, accompanied by a written instrument of transfer or authorization for exchange in form and with guaranty of signature satisfactory to the Bond Registrar, duly executed by the registered owner or the owner's duly authorized attorney. Except as provided in the Indenture, the Bond Registrar will not be required to register the transfer or exchange of any Bond during the fifteen days before any mailing of a notice of redemption, after such Bond has been called for redemption in whole or in part, or after such Bond has been tendered or deemed tendered for optional or mandatory purchase as described under "— Purchases of Bonds on Demand of Owner" and "— Mandatory Purchases of Bonds." Registration of transfers and exchanges will be made without charge to the owners of Bonds, except that the Bond Registrar may require any owner requesting registration of transfer or exchange to pay any required tax or governmental charge.

### Security

Payment of the principal of and interest and any premium on the Bonds is secured by an assignment by the Issuer to the Trustee of the Issuer's interest in and to the Loan Agreement and all payments to be made pursuant thereto (other than certain indemnification and expense payments). Pursuant to the Loan Agreement, the Company has agreed to pay, among other things, amounts sufficient to pay the aggregate principal amount of and premium, if any, on the Bonds, together with interest thereon as and when the same become due. The Company further

will agree to make payments of the purchase price of the Bonds tendered for purchase to the extent that funds are not otherwise available therefor under the provisions of the Indenture.

The payment of the principal of and interest and any premium on the Bonds is further secured by a separate tranche of the Company's First Mortgage Bonds, Collateral Series 2010 (the "First Mortgage Bonds") issued under an Indenture, dated as of October 1, 2010, as supplemented (the "First Mortgage Indenture"), between the Company and The Bank of New York Mellon, as trustee (the "First Mortgage Trustee"). The principal amount of the First Mortgage Bonds equals the principal amount of the Bonds. If the Bonds become immediately due and payable as a result of a default in payment of the principal of, premium, if any, or interest on the Bonds, or a default in payment of the purchase price of such Bonds, due to an event of default under the Loan Agreement and upon receipt by the First Mortgage Trustee of a written demand from the Trustee for redemption of the First Mortgage Bonds, or if all first mortgage bonds outstanding under the First Mortgage Indenture shall have been immediately due and payable, such First Mortgage Bonds will bear interest at the same interest rate or rates borne by the Bonds and the principal of such First Mortgage Bonds, together with interest accrued thereon from the last date or dates to which interest on the Bonds has been paid in full, will be payable in accordance with the Supplemental Indenture. See "Summary of the First Mortgage Bonds."

The First Mortgage Bonds are not intended to provide a direct source of liquidity to pay the purchase price of Bonds tendered for purchase in accordance with the Indenture. The First Mortgage Bonds are secured by a lien on certain property owned by the Company. In certain circumstances, the Company is permitted to reduce the aggregate principal amount of its First Mortgage Bonds held by the Trustee, but in no event to an amount lower than the aggregate outstanding principal amount of the Bonds.

### **The Letter of Credit**

*The following summarizes certain provisions of the Letter of Credit and the Reimbursement Agreement, to which reference is made for the detailed provisions thereof. Unless otherwise defined in this Reoffering Circular, capitalized terms in the following summary are used as defined in the Letter of Credit and the Reimbursement Agreement. The Company is permitted under the Indenture to deliver an Alternate Credit Facility to replace the Letter of Credit. Any such Alternate Credit Facility must meet certain requirements described in the Indenture.*

### **The Letter of Credit**

The Letter of Credit is an irrevocable transferable direct pay letter of credit issued by the Bank in order to provide additional security for the payment of principal of, purchase price of, interest on and premium, if applicable, on any date when payments under the Bonds are due, including principal and interest payments and payments upon tender, redemption, acceleration or maturity of the Bonds. The Letter of Credit provides for direct payments to or upon the order of



the Trustee as set forth in the Letter of Credit in amounts sufficient to pay such amounts in accordance with the terms thereof.

The Letter of Credit has been issued in an amount equal to the aggregate principal amount of the outstanding Bonds, plus an amount that represents interest accrued thereon at an assumed maximum rate of 14% per annum for 45 days (the "Credit Amount"). The Trustee, upon compliance with the terms of the Letter of Credit, is authorized to draw up to (a) an amount sufficient (i) to pay principal of the Bonds, when due, whether at maturity or upon redemption or acceleration, and (ii) to pay the portion of the purchase price of the Bonds delivered for purchase pursuant to a demand for purchase by the owner thereof or a mandatory tender for purchase and not remarketed (a "Liquidity Drawing") equal to the principal amount of the Bonds, plus (b) an amount not to exceed 45 days of accrued interest on the Bonds at an assumed rate of 14% per annum (i) to pay interest on the Bonds, when due, and (ii) to pay the portion of the interest accrued on the Bonds as of any Liquidity Drawing.

The amount available under the Letter of Credit will be automatically reduced by the amount of any drawing thereunder, subject to reinstatement as described below. With respect to a drawing by the Trustee solely to pay interest on the Bonds on an Interest Payment Date, the amount available under the Letter of Credit will be automatically reinstated in the amount of such drawing effective on the earlier of (i) receipt by the Bank from the Company of reimbursement of any drawing solely to pay interest in full or (ii) at the opening of business on the eleventh calendar day after the date the Bank honors such drawing, unless the Trustee has received written notice from the Bank by the tenth calendar day after the date the Bank honors such drawing that the Bank is not so reinstating the available amount due to the Company's failure to reimburse the Bank for such drawing in full, or that an event of default has occurred and is continuing under the \$198,309,583.05 Amended and Restated Letter of Credit Agreement dated as of August 16, 2012 as amended pursuant to Amendment No. 1 dated as of May 1, 2013 and Amendment No. 2 dated as of May 1, 2013 among the Company, the lenders from time to time thereto, and Sumitomo Mitsui Banking Corporation, New York Branch, (successor to Banco Bilboa Vizcaya Argentaria, S.A., New York Branch), as Administrative Agent (the "Credit Agreement") and Sumitomo Mitsui Banking Corporation, New York Branch, as Issuing Lender, and, in either case, directing an acceleration of the Bonds pursuant to the Indenture. With respect to a Liquidity Drawing under the Letter of Credit, the amount available under the Letter of Credit will be automatically reduced by the principal amount of the Bonds purchased with the proceeds of such drawing plus the amount of accrued interest on such Bonds. In the event of the remarketing of the Bonds purchased with the proceeds of a Liquidity Drawing, the amount available under the Letter of Credit will be automatically reinstated upon receipt by the Bank or the Trustee on the Bank's behalf of an amount equal to such principal amount plus accrued interest.

The Letter of Credit will terminate on the earliest to occur of:

- (i) the Bank's close of business on April 22, 2016 (such date, as extended from time to time in accordance with the Letter of Credit is defined as the "Stated Expiration Date");

(ii) the Bank's close of business on the date which is five Business Days following the date of receipt by the Bank of a certificate from the Trustee certifying that (a) no Bonds remain Outstanding within the meaning of the Indenture, (b) all drawings required to be made under the Indenture and available under the Letter of Credit have been made and honored, (c) an Alternate Credit Facility has been delivered to the Trustee in accordance with the Indenture to replace the Letter of Credit or (d) all of the outstanding Bonds were converted to Bonds bearing interest at a rate other than the Daily Rate or the Weekly Rate;

(iii) the Bank's close of business on the date of receipt by the Bank of a certificate from the Trustee confirming that the Trustee is required to terminate the Letter of Credit in accordance with the terms of the Indenture;

(iv) the date on which the Bank receives and honors an acceleration drawing certificate; or

(v) the Bank's close of business on the date which is 30 days after receipt by the Trustee of written notice from the Bank of an Event of Default under the Credit Agreement and instructing the Trustee to draw under the Letter of Credit.

Pursuant to the Credit Agreement, the Company is obligated to reimburse the Bank for all amounts drawn under the Letter of Credit, and to pay interest on all such amounts. The Company has also agreed to pay the Bank and the Administrative Agent fees for issuing and maintaining the Letter of Credit.

### **The Reimbursement Agreement**

The Reimbursement Agreement, through incorporation of the terms of the Credit Agreement, imposes various covenants and agreements, including various financial and operating covenants, on the Company. Such covenants include, but are not limited to, covenants relating to (i) inspection of the books and financial records of the Company; (ii) mergers or consolidations; (iii) disposition of assets and (iv) capitalization ratios. Any such covenants may be amended, waived or modified at any time by the Bank and without the consent of the Trustee or the holders of the Bonds. Under certain circumstances, the failure of the Company to comply with such covenants may result in a mandatory tender or acceleration of the Bonds.

An Event of Default under the Credit Agreement constitutes an Event of Default under the Reimbursement Agreement. The following events constitute an Event of Default under the Credit Agreement:

(i) the Company shall fail to pay when due any principal on any Reimbursement Obligations; or

(ii) the Company shall fail to pay when due any interest on the Reimbursement Obligations, any fee or any other amount payable under the Credit Agreement or under any other Loan Document for five (5) days following the date such payment becomes due thereunder; or

(iii) the Company shall fail to observe or perform certain covenants or agreements contained in the Credit Agreement, including those related to mergers, disposition of assets and capitalization ratios; or

(iv) the Company shall fail to give notice of a Default or Event of Default under the Credit Agreement within a specified number of days following knowledge of such occurrence; or

(v) the Company shall fail to observe or perform any covenant or agreement contained in the Credit Agreement or any other Loan Document (other than those covered above) for thirty (30) days after written notice thereof has been given to the defaulting party by the administrative agent, or at the request of the required lenders; or

(vi) any representation, warranty or certification made by the Company in the Credit Agreement or any other Loan Document or in any certificate, financial statement or other document delivered pursuant hereto or thereto shall prove to have been incorrect in any material respect when made or deemed made; or

(vii) the Company shall (i) fail to pay any principal or interest, regardless of amount, due in respect of any Material Debt beyond any period of grace provided with respect thereto, or (ii) fail to observe or perform any other term, covenant, condition or agreement contained in any agreement or instrument evidencing or governing any such Material Debt beyond any period of grace provided with respect thereto if the effect of any failure referred to in this clause (ii) is to cause, or to permit the holder or holders of such Material Debt or a trustee on its or their behalf to cause, such Material Debt to become due prior to its stated maturity; or

(viii) the Company shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay, or shall admit in writing its inability to pay, its debts as they become due, or shall take any corporate action to authorize any of the foregoing; or

(ix) an involuntary case or other proceeding shall be commenced against the Company seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 days; or an order for relief shall be entered against the Company under the Bankruptcy Code; or

(x) any member of the ERISA Group shall fail to pay when due an amount or amounts aggregating in excess of \$50,000,000 which it shall have become liable to pay under Title IV of ERISA; or notice of intent to terminate a Material Plan shall be filed under Title IV of

ERISA by any member of the ERISA Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate, to impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or to cause a trustee to be appointed to administer any Material Plan; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Material Plan must be terminated; or there shall occur a complete or partial withdrawal from, or default, within the meaning of Section 4219(c)(5) of ERISA, with respect to, one or more Multiemployer Plans which could reasonably be expected to cause one or more members of the ERISA Group to incur a current payment obligation in excess of \$50,000,000; or

(xi) the Company shall fail within sixty (60) days to pay, bond or otherwise discharge any judgment or order for the payment of money in excess of \$20,000,000, entered against the Company that is not stayed on appeal or otherwise being appropriately contested in good faith; or

(xii) a Change of Control shall have occurred;

For purposes of the foregoing:

“Change of Control” means (i) the acquisition by any person, or two or more persons acting in concert, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended) of 25% or more of the outstanding shares of voting stock of PPL Corporation or its successors or (ii) the failure at any time of PPL Corporation or its successors to own 80% or more of the outstanding shares of the voting stock in the Company.

“Material Debt” means debt (other than debt under the Loan Documents) of the Company in a principal or face amount exceeding \$50,000,000

### **Summary of the Loan Agreement**

*The following, in addition to the provisions contained elsewhere in this Reoffering Circular, is a brief description of certain provisions of the Loan Agreement. This description is only a summary and does not purport to be complete and definitive. Reference is made to the Loan Agreement for the detailed provisions thereof.*

#### **General**

The Loan Agreement initially commenced as of its initial date and is amended and restated as of September 1, 2008 and is further amended and supplemented pursuant to the Amendment No. 1 dated as of September 1, 2010, and will end on the earliest to occur of October 1, 2034, or the date on which all of the Bonds shall have been fully paid or provision has been made for such payment pursuant to the Indenture. See “Summary of the Indenture — Discharge of Indenture.”

The Company has agreed to repay the loan pursuant to the Loan Agreement by making timely payments to the Trustee in sufficient amounts to pay the principal of, premium, if any, and interest required to be paid on the Bonds on each date upon which any such payments are due. The Company has also agreed to pay (a) the agreed upon fees and expenses of the Trustee, the Bond Registrar, any Tender Agent and any Paying Agent appointed under the Indenture, (b) the expenses in connection with any redemption of the Bonds and (c) the reasonable expenses of the Issuer.

The Company covenants and agrees with the Issuer that it will cause the purchase of tendered Bonds that are not remarketed in accordance with the Indenture and, to that end, the Company shall cause funds to be made available to the Tender Agent at the times and in the manner required to effect such purchases in accordance with the Indenture; provided, however, that the obligation of the Company to make any such payment will be reduced by the amount of (A) moneys paid by the Remarketing Agent as proceeds of the remarketing of such Bonds by the Remarketing Agent, (B) moneys drawn under a Credit Facility, if any, for the purpose of paying such purchase price and (C) other moneys made available by the Company (see “Summary of the Bonds — Remarketing and Purchase of Bonds”).

All payments to be made by the Company to the Issuer pursuant to the Loan Agreement (except the reasonable out-of-pocket expenses of the Issuer, the Trustee, the Paying Agent, the Bond Registrar, the Tender Agent and amounts related to indemnification) have been assigned by the Issuer to the Trustee, and the Company will pay such amounts directly to the Trustee. The obligations of the Company to make the payments pursuant to the Loan Agreement are absolute and unconditional.

### **Maintenance of Tax Exemption**

The Company and the Issuer have agreed not to take any action that would result in the interest paid on the Bonds being included in gross income of any Bondholder (other than a holder who is a “substantial user” of the Project or a “related person” within the meaning of Section 147(a) of the Code) for federal income tax purposes or that adversely affects the validity of the Bonds.

### **Issuance and Delivery of First Mortgage Bonds**

For the purpose of providing security for the Bonds, the Company has executed and delivered to the Trustee the First Mortgage Bonds. The principal amount of the First Mortgage Bonds executed and delivered to the Trustee equals the aggregate principal amount of the Bonds. If the Bonds become immediately due and payable as a result of a default in payment of the principal of, premium, if any, or interest on the Bonds, or a default in payment of the purchase price of such Bonds, due to an event of default under the Loan Agreement and upon receipt by the First Mortgage Trustee of a written demand from the Trustee for redemption of the First Mortgage Bonds, or if all first mortgage bonds outstanding under the First Mortgage Indenture shall have been immediately due and payable, such First Mortgage Bonds will bear interest at the same interest rate or rates borne by the Bonds and the principal of such First Mortgage Bonds, together with interest accrued thereon from the last date to which interest on the Bonds shall

have been paid in full, will then be payable. See, however, "Summary of the Indenture — Waiver of Events of Default."

Upon payment of the principal of, premium, if any, and interest on any of the Bonds, and the surrender to and cancellation thereof by the Trustee, or upon provision for the payment thereof having been made in accordance with the Indenture, First Mortgage Bonds with corresponding principal amounts equal to the aggregate principal amount of the Bonds so surrendered and canceled or for the payment of which provision has been made, will be surrendered by the Trustee to the First Mortgage Trustee and will be canceled by the First Mortgage Trustee. The First Mortgage Bonds will be registered in the name of the Trustee and will be non transferable, except to effect transfers to any successor trustee under the Indenture.

### **Payment of Taxes**

The Company has agreed to pay certain taxes and other governmental charges that may be lawfully assessed, levied or charged against or with respect to the Project (see, however, subparagraph (i) under "Summary of the Bonds — Redemptions — Extraordinary Optional Redemption in Whole"). The Company may contest such taxes or other governmental charges unless the security provided by the Indenture would be materially endangered.

### **Maintenance; Damage, Destruction and Condemnation**

So long as any Bonds are outstanding, the Company will maintain the Project or cause the Project to be maintained in good working condition and will make or cause to be made all proper repairs, replacements and renewals necessary to continue to constitute the Project as solid waste disposal facilities under Section 142(a)(6) of the Code and the Act. However, the Company will have no obligation to maintain, repair, replace or renew any portion of the Project, the maintenance, repair, replacement or renewal of which becomes uneconomical to the Company because of certain events, including damage or destruction by a cause not within the Company's control, condemnation of the Project, change in government standards and regulations, economic or other obsolescence or termination of operation of generating facilities to the Project.

The Company, at its own expense, may remodel the Project or make substitutions, modifications and improvements to the Project as it deems desirable, which remodeling, substitutions, modifications and improvements will be deemed, under the terms of the Loan Agreement to be a part of the Project. The Company may not, however, change or alter the basic nature of the Project or cause it to lose its status under Section 142(a)(6) of the Code and the Act.

If, prior to the payment of all Bonds outstanding, the Project or any portion thereof is destroyed, damaged or taken by the exercise of the power of eminent domain and the Issuer or the Company receives net proceeds from insurance or a condemnation award in connection therewith, the Company must (i) cause such net proceeds to be used to repair or restore the Project or (ii) reimburse the Credit Facility Issuer for drawings under the Credit Facility for the redemption of the Bonds in whole or in part at their principal amount, which, by the opinion of Bond Counsel, will not adversely affect the exclusion of the interest on the Bonds from gross

income for federal income tax purposes. See “Summary of the Bonds — Redemptions — Extraordinary Optional Redemption in Whole or in Part.”

### **Insurance**

The Company has agreed to insure the Project in accordance with the provisions of the First Mortgage Indenture.

### **Assignment, Merger and Release of Obligations of the Company**

The Company may assign the Loan Agreement, pursuant to an opinion of Bond Counsel that such assignment will not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes, without obtaining the consent of either the Issuer or the Trustee. Such assignment, however, shall not relieve the Company from primary liability for any of its obligations under the Loan Agreement and performance and observance of the other covenants and agreements to be performed by the Company. The Company may dispose of all or substantially all of its assets or consolidate with or merge into another corporation, provided the acquirer of the Company’s assets or the corporation with which it shall consolidate with or merge into shall be a corporation or other business organization organized and existing under the laws of the United States of America or one of the states of the United States of America or the District of Columbia, shall be qualified and admitted to do business in the Commonwealth of Kentucky and shall assume in writing all of the obligations and covenants of the Company under the Loan Agreement.

### **Release and Indemnification Covenant**

The Company will indemnify and hold the Issuer harmless against any expense or liability incurred, including attorneys’ fees, resulting from any loss or damage to property or any injury to or death of any person occurring on or about or resulting from any defect in the Project or from any action commenced in connection with the financing thereof.

### **Events of Default**

Each of the following events constitutes an “event of default” under the Loan Agreement:

(1) failure by the Company to pay the amounts required for payment of the principal of, including purchase price for tendered Bonds and redemption and acceleration prices, and interest accrued, on the Bonds, at the times specified therein taking into account any periods of grace provided in the Indenture and the Bonds for the applicable payment of interest on the Bonds (see “Summary of the Indenture — Defaults and Remedies”);

(2) failure by the Company to observe and perform any covenant, condition or agreement, other than as referred to in paragraph (1) above, for a period of thirty days after written notice by the Issuer or Trustee, provided, however, that if such failure is capable of being corrected, but cannot be corrected in such 30-day period, it will not constitute an event of default under the Loan Agreement if corrective action with respect thereto is instituted within such period and is being diligently pursued;



- (3) certain events of bankruptcy, dissolution, liquidation, reorganization or insolvency of the Company;
- (4) the occurrence of an event of default under the Indenture; or
- (5) all first mortgage bonds outstanding under the First Mortgage Indenture, if not already due, shall have become immediately due and payable, whether by declaration or otherwise, and such acceleration shall not have been rescinded or annulled by the First Mortgage Trustee.

Under the Loan Agreement, certain of the Company's obligations (other than the Company's obligations, among others, (i) not to permit any action which would result in interest paid on the Bonds being included in gross income for federal and Kentucky income taxes; (ii) to maintain its corporate existence and good standing, and to neither dispose of all or substantially all of its assets or consolidate with or merge into another corporation unless certain provisions of the Loan Agreement are satisfied; and (iii) to make loan payments and certain other payments under the provisions of the Loan Agreement) may be suspended if by reason of force majeure (as defined in the Loan Agreement) the Company is unable to carry out such obligations.

### **Remedies**

Upon the happening of an event of default under the Loan Agreement, the Trustee, on behalf of the Issuer, may, among other things, take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the Company, under the Loan Agreement, including any remedies available in respect of the First Mortgage Bonds.

In the event of a default in payment of the principal of, premium, if any, or interest on the Bonds and the acceleration of the maturity date of the Bonds (to the extent not already due and payable) as a consequence of such event of default, the Trustee may demand redemption of the First Mortgage Bonds. See "Summary of the First Mortgage Bonds" and "Summary of the Indenture — Defaults and Remedies." Any amounts collected upon the happening of any such event of default will be applied in accordance with the Indenture or, if the Bonds have been fully paid (or provision for payment thereof has been made in accordance with the Indenture) and all other liabilities of the Company accrued under the Indenture and the Loan Agreement have been paid or satisfied, made available to the Company.

### **Options to Prepay, Obligation to Prepay**

The Company may prepay the loan pursuant to the Loan Agreement, in whole or in part, on certain dates, at the prepayment prices as shown under the captions "Summary of the Bonds — Redemptions — Optional Redemption," "— Extraordinary Optional Redemption in Whole" and "— Extraordinary Optional Redemption in Whole or in Part." Upon the occurrence of the event described under the caption "Summary of the Bonds — Redemptions — Mandatory Redemption; Determination of Taxability," the Company shall be obligated to prepay the loan in an aggregate amount sufficient to redeem the required principal amount of the Bonds.

In each instance, the loan prepayment price shall be a sum sufficient, together with other funds deposited with the Trustee and available for such purpose, to redeem the requisite amount of the Bonds at a price equal to the applicable redemption price plus accrued interest to the redemption date, and to pay all reasonable and necessary fees and expenses of the Trustee, the Paying Agent and all other liabilities of the Company under the Loan Agreement accrued to the redemption date.

### **Amendments and Modifications**

No amendment or modification of the Loan Agreement is permissible without the written consent of the Trustee. The Issuer and the Trustee may, however, without the consent of or notice to any Bondholders, enter into any amendment or modification of the Loan Agreement (i) which may be required by the provisions of the Loan Agreement or the Indenture, (ii) for the purpose of curing any ambiguity or formal defect or omission, (iii) in connection with any modification or change necessary to conform the Loan Agreement with changes and modifications in the Indenture or (iv) in connection with any other change which, in the judgment of the Trustee, does not adversely affect the Trustee or the Bondholders. Except for such amendments, the Loan Agreement may be amended or modified only with the consent of the Bondholders holding a majority in principal amount of the Bonds then outstanding (see “Summary of the Indenture — Supplemental Indentures” for an explanation of the procedures necessary for Bondholder consent); provided, however, that the approval of the Bondholders holding 100% in principal amount of the Bonds then outstanding is necessary to effectuate an amendment or modification with respect to the Loan Agreement of the type described in clauses (i) through (iv) of the first sentence of the second paragraph of “Summary of the Indenture — Supplemental Indentures.” Any amendments, changes or modification of the Loan Agreement that require the consent of the Bondholders must additionally be approved by the Credit Facility Issuer, if the Bonds are at the time secured by a Credit Facility. Additionally, so long as a Credit Facility is in place or while any amounts are outstanding under a Reimbursement Agreement, the Credit Facility Issuer must consent in writing to any amendment, change, or modification to the Agreement.

### **Summary of the First Mortgage Bonds**

*The following, in addition to the provisions contained elsewhere in this Reoffering Circular, is a brief description of certain provisions of the First Mortgage Bonds and the First Mortgage Indenture. This description is only a summary and does not purport to be complete and definitive. Reference is made to the First Mortgage Indenture and to the form of the First Mortgage Bonds for the detailed provisions thereof.*

#### **General**

The First Mortgage Bonds, in a principal amount equal to the principal amount of the Bonds, were issued as a new tranche from a new series of first mortgage bonds under the First Mortgage Indenture (see "Summary of the Loan Agreement — Issuance and Delivery of First

Mortgage Bonds"). The statements herein made (being for the most part summaries of certain provisions of the First Mortgage Indenture) are subject to the detailed provisions of the First Mortgage Indenture, which is incorporated herein by this reference. Words or phrases italicized are defined in the First Mortgage Indenture.

The First Mortgage Bonds will mature on the same date and bear interest at the same rate or rates as the Bonds; however, the principal of and interest on the First Mortgage Bonds will not be payable other than upon the occurrence of an event of default under the Loan Agreement. If the Bonds become immediately due and payable as a result of a default in payment of the principal of, premium, if any, or interest on the Bonds, or a default in payment of the purchase price of such Bonds, due to an event of default under the Loan Agreement, and if all first mortgage bonds outstanding under the First Mortgage Indenture shall not have become immediately due and payable following an event of default under the First Mortgage Indenture, the Company will be obligated to redeem the First Mortgage Bonds upon receipt by the First Mortgage Trustee of a Redemption Demand from the Trustee for redemption, at a redemption price equal to the principal amount thereof plus accrued interest at the rates borne by the Bonds from the last date to which interest on the Bonds has been paid.

The First Mortgage Bonds at all times will be in fully registered form registered in the name of the Trustee, will be non-negotiable, and will be non-transferable except to any successor trustee under the Indenture. Upon payment and cancellation of Bonds by the Trustee or the Paying Agent (other than any Bond or portion thereof that was canceled by the Trustee or the Paying Agent and for which one or more Bonds were delivered and authenticated pursuant to the Indenture), whether at maturity, by redemption or otherwise, or upon provision for the payment of the Bonds having been made in accordance with the Indenture, an equal principal amount of First Mortgage Bonds will be deemed fully paid and the obligations of the Company thereunder will cease.

### **Security; Lien of the First Mortgage Indenture**

*General.* Except as described below under this heading and under “— Issuance of Additional First Mortgage Bonds,” and subject to the exceptions described under “— Satisfaction and Discharge,” all first mortgage bonds issued under the First Mortgage Indenture, including the Bonds, will be secured, equally and ratably, by the lien of the First Mortgage Indenture, which constitutes, subject to permitted liens as described below, a first mortgage lien on substantially all of the Company’s real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity (other than property duly released from the lien of the First Mortgage Indenture in accordance with the provisions thereof and other than excepted property, as described below). Property that is subject to the lien of the First Mortgage Indenture is referred to herein as “Mortgaged Property.”

The Company may obtain the release of property from the lien of the First Mortgage Indenture from time to time, upon the bases provided for such release in the First Mortgage Indenture. See “— Release of Property.”

The Company may enter into supplemental indentures with the First Mortgage Trustee, without the consent of the holders of the first mortgage bonds, in order to subject additional property (including property that would otherwise be excepted from such lien) to the lien of the First Mortgage Indenture. This property would constitute *property additions* and would be available as a basis for the issuance of additional first mortgage bonds. See “— Issuance of Additional First Mortgage Bonds.”

The First Mortgage Indenture provides that after-acquired property (other than *excepted property*) will be subject to the lien of the First Mortgage Indenture. However, in the case of consolidation or merger (whether or not the Company is the surviving company) or transfer of the Mortgaged Property as or substantially as an entirety, the First Mortgage Indenture will not be required to be a lien upon any of the properties either owned or subsequently acquired by the successor company except properties acquired from the Company in or as a result of such transfer, as well as improvements, extensions and additions (as defined in the First Mortgage Indenture) to such properties and renewals, replacements and substitutions of or for any part or parts thereof. See “— Consolidation, Merger and Conveyance of Assets as an Entirety.”

*Excepted Property.* The lien of the First Mortgage Indenture does not cover, among other things, the following types of property: property located outside of Kentucky and not specifically subjected or required to be subjected to the lien of the First Mortgage Indenture; property not used by the Company in its electric generation, transmission and distribution business; cash and securities not paid, deposited or held under the First Mortgage Indenture; contracts, leases and other agreements of all kinds, contract rights, bills, notes and other instruments, revenues, accounts receivable, claims, demands and judgments; governmental and other licenses, permits, franchises, consents and allowances; intellectual property rights and other general intangibles; vehicles, movable equipment, aircraft and vessels; all goods, stock in trade, wares, merchandise and inventory held for the purpose of sale or lease in the ordinary course of business; materials, supplies, inventory and other personal property consumable in the operation of the Company’s business; fuel; tools and equipment; furniture and furnishings; computers and data processing, telecommunications and other facilities used primarily for administrative or clerical purposes or otherwise not used in connection with the operation or maintenance of electric generation, transmission and distribution facilities; coal, ore, gas, oil and other minerals and timber rights; electric energy and capacity, gas, steam, water and other products generated, produced, manufactured, purchased or otherwise acquired; real property and facilities used primarily for the production or gathering of natural gas; property which has been released from the lien of the First Mortgage Indenture; and leasehold interests. Property of the Company not covered by the lien of the First Mortgage Indenture is referred to herein as excepted property. Properties held by any of the Company’s subsidiaries, as well as properties leased from others, would not be subject to the lien of the First Mortgage Indenture.

*Permitted Liens.* The lien of the First Mortgage Indenture is subject to permitted liens described in the First Mortgage Indenture. Such *permitted liens* include liens existing at the execution date of the First Mortgage Indenture, purchase money liens and other liens placed or otherwise existing on property acquired by the Company after the execution date of the First Mortgage Indenture at the time the Company acquires it, tax liens and other governmental charges which are not delinquent or which are being contested in good faith, mechanics’, construction and materialmen’s liens, certain judgment liens, easements, reservations and rights

of others (including governmental entities) in, and defects of title to, the Company's property, certain leases and leasehold interests, liens to secure public obligations, rights of others to take minerals, timber, electric energy or capacity, gas, water, steam or other products produced by the Company or by others on the Company's property, rights and interests of persons other than the Company arising out of agreements relating to the common ownership or joint use of property, and liens on the interests of such persons in such property and liens which have been bonded or for which other security arrangements have been made.

The First Mortgage Indenture also provides that the First Mortgage Trustee will have a lien, prior to the lien on behalf of the holders of the first mortgage bonds, including the First Mortgage Bonds, upon the Mortgaged Property as security for the Company's payment of its reasonable compensation and expenses and for indemnity against certain liabilities. Any such lien would be a *permitted lien* under the First Mortgage Indenture.

### Issuance of Additional First Mortgage Bonds

The maximum principal amount of first mortgage bonds that may be authenticated and delivered under the First Mortgage Indenture is subject to the issuance restrictions described below; provided, however, that the maximum principal amount of first mortgage bonds outstanding at any one time shall not exceed One Quintillion Dollars (\$1,000,000,000,000,000,000), which amount may be changed by supplemental indenture. As of April 30, 2013, first mortgage bonds in an aggregate principal amount of \$1,850,779,405 were outstanding under the First Mortgage Indenture, of which \$350,779,405 were issued to secure the Company's payment obligations with respect to its outstanding pollution control and environmental facilities revenue bonds, including the Bonds.

First mortgage bonds of any series may be issued from time to time on the basis of, and in an aggregate principal amount not exceeding:

- 66 2/3% of the *cost* or *fair value* to the Company (whichever is less) of *property additions* (as described below) which do not constitute *funded property* (generally, *property additions* which have been made the basis of the authentication and delivery of first mortgage bonds, the release of Mortgaged Property or the withdrawal of cash, which have been substituted for retired *funded property* or which have been used for other specified purposes) after certain deductions and additions, primarily including adjustments to offset property retirements;
- the aggregate principal amount of *retired securities* (as described below); or
- an amount of cash deposited with the First Mortgage Trustee.

*Property additions* generally include any property which is owned by the Company and is subject to the lien of the First Mortgage Indenture except (with certain exceptions) goodwill, going concern value rights or intangible property, or any property the acquisition or construction of which is properly chargeable to one of the Company's operating expense accounts.

*Retired securities* means, generally, first mortgage bonds which are no longer outstanding under the First Mortgage Indenture, which have not been retired by the application of *funded cash* and which have not been used as the basis for the authentication and delivery of first mortgage bonds, the release of property or the withdrawal of cash.

Future First Mortgage Bonds can be issued on the basis of *property additions*. At April 30, 2013, approximately \$1.8 billion of *property additions* were available to be used as the basis for the authentication and delivery of first mortgage bonds.

### Release of Property

Unless an *event of default* has occurred and is continuing, the Company may obtain the release from the lien of the First Mortgage Indenture of any Mortgaged Property, except for cash held by the First Mortgage Trustee, upon delivery to the First Mortgage Trustee of an amount in cash equal to the amount, if any, by which sixty-six and two-thirds percent (66-2/3%) of the cost of the property to be released (or, if less, the *fair value* to the Company of such property at the time it became *funded property*) exceeds the aggregate of:

- an amount equal to 66 2/3% of the aggregate principal amount of obligations secured by *purchase money liens* upon the property to be released and delivered to the First Mortgage Trustee;
- an amount equal to 66 2/3% of the *cost* or *fair value* to the Company (whichever is less) of certified *property additions* not constituting *funded property* after certain deductions and additions, primarily including adjustments to offset property retirements (except that such adjustments need not be made if such *property additions* were acquired or made within the 90-day period preceding the release);
- the aggregate principal amount of first mortgage bonds the Company would be entitled to issue on the basis of *retired securities* (with such entitlement being waived by operation of such release);
- the aggregate principal amount of first mortgage bonds delivered to the First Mortgage Trustee (with such first mortgage bonds to be canceled by the First Mortgage Trustee);
- any amount of cash and/or an amount equal to 66 2/3% of the aggregate principal amount of obligations secured by *purchase money liens* upon the property released delivered to the trustee or other holder of a lien prior to the lien of the First Mortgage Indenture, subject to certain limitations described in the First Mortgage Indenture; and
- any taxes and expenses incidental to any sale, exchange, dedication or other disposition of the property to be released.

As used in the First Mortgage Indenture, the term *purchase money* lien means, generally, a lien on the property being released which is retained by the transferor of such property or granted to one or more other persons in connection with the transfer or release thereof, or granted to or held by a trustee or agent for any such persons, and may include liens which cover property

in addition to the property being released and/or which secure indebtedness in addition to indebtedness to the transferor of such property.

Unless an *event of default* has occurred and is continuing, property which is not *funded property* may generally be released from the lien of the First Mortgage Indenture without depositing any cash or property with the First Mortgage Trustee as long as (a) the aggregate amount of *cost* or *fair value* to the Company (whichever is less) of all *property additions* which do not constitute *funded property* (excluding the property to be released) after certain deductions and additions, primarily including adjustments to offset property retirements, is not less than zero or (b) the *cost* or *fair value* (whichever is less) of property to be released does not exceed the aggregate amount of the *cost* or *fair value* to the Company (whichever is less) of *property additions* acquired or made within the 90-day period preceding the release.

The First Mortgage Indenture provides simplified procedures for the release of minor properties and property taken by eminent domain, and provides for dispositions of certain obsolete property and grants or surrender of certain rights without any release or consent by the First Mortgage Trustee.

If the Company retains any interest in any property released from the lien of the First Mortgage Indenture, the First Mortgage Indenture will not become a lien on such property or such interest therein or any improvements, extensions or additions to such property or renewals, replacements or substitutions of or for such property or any part or parts thereof.

### **Withdrawal of Cash**

Unless an *event of default* has occurred and is continuing, and subject to certain limitations, cash held by the First Mortgage Trustee may, generally, (1) be withdrawn by the Company (a) to the extent of sixty-six and two-thirds percent (66-2/3%) of the *cost* or *fair value* to the Company (whichever is less) of *property additions* not constituting *funded property*, after certain deductions and additions, primarily including adjustments to offset retirements (except that such adjustments need not be made if such *property additions* were acquired or made within the 90-day period preceding the withdrawal) or (b) in an amount equal to the aggregate principal amount of first mortgage bonds that the Company would be entitled to issue on the basis of *retired securities* (with the entitlement to such issuance being waived by operation of such withdrawal) or (c) in an amount equal to the aggregate principal amount of any outstanding first mortgage bonds delivered to the First Mortgage Trustee; or (2) upon the Company's request, be applied to (a) the purchase of first mortgage bonds in a manner and at a price approved by the Company or (b) the payment (or provision for payment) at stated maturity of any first mortgage bonds or the redemption (or provision for payment) of any first mortgage bonds which are redeemable; provided, however, that cash deposited with the First Mortgage Trustee as the basis for the authentication and delivery of first mortgage bonds may, in addition, be withdrawn in an amount not exceeding the aggregate principal amount of cash delivered to the First Mortgage Trustee for such purpose.

### **Events of Default**

An "*event of default*" occurs under the First Mortgage Indenture if



- the Company does not pay any interest on any first mortgage bonds within 30 days of the due date;
- the Company does not pay principal or premium, if any, on any first mortgage bonds on the due date;
- the Company remains in breach of any other covenant (excluding covenants specifically dealt with elsewhere in this section) in respect of any first mortgage bonds for 90 days after the Company receives a written notice of default stating the Company is in breach and requiring remedy of the breach; the notice must be sent by either the First Mortgage Trustee or holders of 25% of the principal amount of outstanding first mortgage bonds; the First Mortgage Trustee or such holders can agree to extend the 90-day period and such an agreement to extend will be automatically deemed to occur if the Company initiates corrective action within such 90 day period and the Company is diligently pursuing such action to correct the default; or
- the Company files for bankruptcy or certain other events in bankruptcy, insolvency, receivership or reorganization occur.

## Remedies

*Acceleration of Maturity.* If an event of default occurs and is continuing, then either the First Mortgage Trustee or the holders of not less than 25% in principal amount of the outstanding first mortgage bonds may declare the principal amount of all of the first mortgage bonds to be due and payable immediately.

*Rescission of Acceleration.* After the declaration of acceleration has been made and before the First Mortgage Trustee has obtained a judgment or decree for payment of the money due, such declaration and its consequences will be rescinded and annulled, if

- the Company pays or deposits with the First Mortgage Trustee a sum sufficient to pay:
  - all overdue interest;
  - the principal of and premium, if any, which have become due otherwise than by such declaration of acceleration and interest thereon;
  - interest on overdue interest to the extent lawful;
  - all amounts due to the First Mortgage Trustee under the First Mortgage Indenture; and
- all *events of default*, other than the nonpayment of the principal which has become due solely by such declaration of acceleration, have been cured or waived as provided in the First Mortgage Indenture.

For more information as to waiver of defaults, see “— Waiver of Default and of Compliance” below.

*Appointment of Receiver and Other Remedies.* Subject to the First Mortgage Indenture, under certain circumstances and to the extent permitted by law, if an *event of default* occurs and is continuing, the First Mortgage Trustee has the power to appoint a receiver of the Mortgaged Property, and is entitled to all other remedies available to mortgagees and secured parties under the Uniform Commercial Code or any other applicable law.

*Control by Holders; Limitations.* Subject to the First Mortgage Indenture, if an *event of default* occurs and is continuing, the holders of a majority in principal amount of the outstanding first mortgage bonds will have the right to

- direct the time, method and place of conducting any proceeding for any remedy available to the First Mortgage Trustee, or
- exercise any trust or power conferred on the First Mortgage Trustee.

The rights of holders to make direction are subject to the following limitations:

- the holders’ directions may not conflict with any law or the First Mortgage Indenture; and
- the holders’ directions may not involve the First Mortgage Trustee in personal liability where the First Mortgage Trustee believes indemnity is not adequate.

The First Mortgage Trustee may also take any other action it deems proper which is not inconsistent with the holders’ direction.

In addition, the First Mortgage Indenture provides that no holder of any first mortgage bond will have any right to institute any proceeding, judicial or otherwise, with respect to the First Mortgage Indenture for the appointment of a receiver or for any other remedy thereunder unless

- that holder has previously given the First Mortgage Trustee written notice of a continuing *event of default*;
- the holders of 25% in aggregate principal amount of the outstanding first mortgage bonds have made written request to the First Mortgage Trustee to institute proceedings in respect of that *event of default* and have offered the First Mortgage Trustee reasonable indemnity against costs, expenses and liabilities incurred in complying with such request; and
- for 60 days after receipt of such notice, request and offer of indemnity, the First Mortgage Trustee has failed to institute any such proceeding and no direction inconsistent with such request has been given to the First Mortgage Trustee during such 60-day period by the holders of a majority in aggregate principal amount of outstanding first mortgage bonds.

Furthermore, no holder of any first mortgage bonds will be entitled to institute any such action if and to the extent that such action would disturb or prejudice the rights of other holders of first mortgage bonds.

However, each holder of any first mortgage bonds has an absolute and unconditional right to receive payment when due and to bring a suit to enforce that right.

*Notice of Default.* The First Mortgage Trustee is required to give the holders of the first mortgage bonds notice of any default under the First Mortgage Indenture to the extent required by the Trust Indenture Act, unless such default has been cured or waived; except that in the case of an *event of default* of the character specified in the third bullet point under “— Events of Default” (regarding a breach of certain covenants continuing for 90 days after the receipt of a written notice of default), no such notice shall be given to such holders until at least 60 days after the occurrence thereof. The Trust Indenture Act currently permits the First Mortgage Trustee to withhold notices of default (except for certain payment defaults) if the First Mortgage Trustee in good faith determines the withholding of such notice to be in the interests of the holders of the first mortgage bonds.

The Company will furnish the First Mortgage Trustee with an annual statement as to its compliance with the conditions and covenants in the First Mortgage Indenture.

*Waiver of Default and of Compliance.* The holders of a majority in aggregate principal amount of the outstanding first mortgage bonds may waive, on behalf of the holders of all outstanding first mortgage bonds, any past default under the First Mortgage Indenture, except a default in the payment of principal, premium or interest, or with respect to compliance with certain provisions of the First Mortgage Indenture that cannot be amended without the consent of the holder of each outstanding first mortgage bond affected.

Compliance with certain covenants in the First Mortgage Indenture or otherwise provided with respect to first mortgage bonds may be waived by the holders of a majority in aggregate principal amount of the affected first mortgage bonds, considered as one class.

### **Consolidation, Merger and Conveyance of Assets as an Entirety**

Subject to the provisions described below, the Company has agreed to preserve its corporate existence.

The Company has agreed not to consolidate with or merge with or into any other entity or convey, transfer or lease the Mortgaged Property as or substantially as an entirety to any entity unless

- the entity formed by such consolidation or into which the Company merges, or the entity which acquires or which leases the Mortgaged Property substantially as an entirety, is an entity organized and existing under the laws of the United States of America or any State or Territory thereof or the District of Columbia, and
- expressly assumes, by supplemental indenture, the due and punctual payment of the principal of, and premium and interest on, all the outstanding first mortgage bonds and

the performance of all of the Company's covenants under the First Mortgage Indenture, and

- such entity confirms the lien of the First Mortgage Indenture on the Mortgaged Property, including property thereafter acquired by such entity which constitutes an improvement, extension or addition to the Mortgaged Property or a renewal, replacement or substitution thereof;
- in the case of a lease, such lease is made expressly subject to termination by (i) the Company or by the First Mortgage Trustee and (ii) the purchaser of the property so leased at any sale thereof, at any time during the continuance of an *event of default*; and
- immediately after giving effect to such transaction, no *event of default*, and no event which after notice or lapse of time or both would become an *event of default*, will have occurred and be continuing.

In the case of the conveyance or other transfer of the Mortgaged Property as or substantially as an entirety to any other person, upon the satisfaction of all the conditions described above the Company would be released and discharged from all obligations under the First Mortgage Indenture and on the first mortgage bonds then outstanding unless the Company elects to waive such release and discharge.

The First Mortgage Indenture does not prevent or restrict:

- any consolidation or merger after the consummation of which the Company would be the surviving or resulting entity; or
- any conveyance or other transfer, or lease, of any part of the Mortgaged Property which does not constitute the entirety or substantially the entirety thereof.

If following a conveyance or other transfer, or lease, of any part of the Mortgaged Property, the fair value of the Mortgaged Property retained by the Company exceeds an amount equal to three-halves (3/2) of the aggregate principal amount of all outstanding first mortgage bonds, then the part of the Mortgaged Property so conveyed, transferred or leased shall be deemed not to constitute the entirety or substantially the entirety of the Mortgaged Property. This fair value will be determined within 90 days of the conveyance or transfer by an independent expert that the Company selects and that is approved by the First Mortgage Trustee.

### **Modification of First Mortgage Indenture**

*Without Holder Consent.* Without the consent of any holders of first mortgage bonds, the Company and the First Mortgage Trustee may enter into one or more supplemental indentures for any of the following purposes:

- to evidence the succession of another entity to the Company;

- to add one or more covenants or other provisions for the benefit of the holders of all or any series or tranche of first mortgage bonds, or to surrender any right or power conferred upon the Company;
- to correct or amplify the description of any property at any time subject to the lien of the First Mortgage Indenture; or to better assure, convey and confirm unto the First Mortgage Trustee any property subject or required to be subjected to the lien of the First Mortgage Indenture; or to subject to the lien of the First Mortgage Indenture additional property (including property of others), to specify any additional Permitted Liens with respect to such additional property and to modify the provisions in the First Mortgage Indenture for dispositions of certain types of property without release in order to specify any additional items with respect to such additional property;
- to add any additional *events of default*, which may be stated to remain in effect only so long as the first mortgage bonds of any one more particular series remains outstanding;
- to change or eliminate any provision of the First Mortgage Indenture or to add any new provision to the First Mortgage Indenture that does not adversely affect the interests of the holders in any material respect;
- to establish the form or terms of any series or tranche of first mortgage bonds;
- to provide for the issuance of bearer securities;
- to evidence and provide for the acceptance of appointment of a successor First Mortgage Trustee or by a co-trustee or separate trustee;
- to provide for the procedures required to permit the utilization of a noncertificated system of registration for any series or tranche of first mortgage bonds;
- to change any place or places where
  - the Company may pay principal, premium and interest,
  - first mortgage bonds may be surrendered for transfer or exchange, and
  - notices and demands to or upon the Company may be served;
- to amend and restate the First Mortgage Indenture as originally executed, and as amended from time to time, with such additions, deletions and other changes that do not adversely affect the interest of the holders in any material respect;
- to cure any ambiguity, defect or inconsistency or to make any other changes that do not adversely affect the interests of the holders in any material respect; or

- to increase or decrease the maximum principal amount of first mortgage bonds that may be outstanding at any time.

In addition, if the Trust Indenture Act is amended after the date of the First Mortgage Indenture so as to require changes to the First Mortgage Indenture or so as to permit changes to, or the elimination of, provisions which, at the date of the First Mortgage Indenture or at any time thereafter, were required by the Trust Indenture Act to be contained in the First Mortgage Indenture, the First Mortgage Indenture will be deemed to have been amended so as to conform to such amendment or to effect such changes or elimination, and the Company and the First Mortgage Trustee may, without the consent of any holders, enter into one or more supplemental indentures to effect or evidence such amendment.

*With Holder Consent.* Except as provided above, the consent of the holders of at least a majority in aggregate principal amount of the first mortgage bonds of all outstanding series, considered as one class, is generally required for the purpose of adding to, or changing or eliminating any of the provisions of, the First Mortgage Indenture pursuant to a supplemental indenture. However, if less than all of the series of outstanding first mortgage bonds are directly affected by a proposed supplemental indenture, then such proposal only requires the consent of the holders of a majority in aggregate principal amount of the outstanding first mortgage bonds of all directly affected series, considered as one class. Moreover, if the first mortgage bonds of any series have been issued in more than one tranche and if the proposed supplemental indenture directly affects the rights of the holders of first mortgage bonds of one or more, but less than all, of such tranches, then such proposal only requires the consent of the holders of a majority in aggregate principal amount of the outstanding first mortgage bonds of all directly affected tranches, considered as one class.

However, no amendment or modification may, without the consent of the holder of each outstanding first mortgage bond directly affected thereby,

- change the stated maturity of the principal or interest on any first mortgage bond (other than pursuant to the terms thereof), or reduce the principal amount, interest or premium payable (or method of calculating such rates) or change the currency in which any first mortgage bond is payable, or impair the right to bring suit to enforce any payment;
- create any lien (not otherwise permitted by the First Mortgage Indenture) ranking prior to the lien of the First Mortgage Indenture with respect to all or substantially all of the Mortgaged Property, or terminate the lien of the First Mortgage Indenture on all or substantially all of the Mortgaged Property (other than in accordance with the terms of the First Mortgage Indenture), or deprive any holder of the benefits of the security of the lien of the First Mortgage Indenture;
- reduce the percentages of holders whose consent is required for any supplemental indenture or waiver of compliance with any provision of the First Mortgage Indenture or of any default thereunder and its consequences, or reduce the requirements for quorum and voting under the First Mortgage Indenture; or

- modify certain of the provisions of the First Mortgage Indenture relating to supplemental indentures, waivers of certain covenants and waivers of past defaults with respect to first mortgage bonds.

A supplemental indenture which changes, modifies or eliminates any provision of the First Mortgage Indenture expressly included solely for the benefit of holders of first mortgage bonds of one or more particular series or tranches will be deemed not to affect the rights under the First Mortgage Indenture of the holders of first mortgage bonds of any other series or tranche.

### **Satisfaction and Discharge**

Any first mortgage bonds or any portion thereof will be deemed to have been paid and no longer outstanding for purposes of the First Mortgage Indenture and, at the Company's election, the Company's entire indebtedness with respect to those securities will be satisfied and discharged, if there shall have been irrevocably deposited with the First Mortgage Trustee or any Paying Agent (other than the Company), in trust:

- money sufficient, or
- in the case of a deposit made prior to the maturity of such first mortgage bonds, non-redeemable *eligible obligations* (as defined in the First Mortgage Indenture) sufficient, or
- a combination of the items listed in the preceding two bullet points, which in total are sufficient,

to pay when due the principal of, and any premium, and interest due and to become due on such first mortgage bonds or portions of such first mortgage bonds on and prior to their maturity.

The Company's right to cause its entire indebtedness in respect of the first mortgage bonds of any series to be deemed to be satisfied and discharged as described above will be subject to the satisfaction of any conditions specified in the instrument creating such series.

The First Mortgage Indenture will be deemed satisfied and discharged when no first mortgage bonds remain outstanding and when the Company has paid all other sums payable by it under the First Mortgage Indenture.

All moneys the Company pays to the First Mortgage Trustee or any Paying Agent on First Mortgage Bonds that remain unclaimed at the end of two years after payments have become due may be paid to or upon the Company's order. Thereafter, the holder of such First Mortgage Bond may look only to the Company for payment.

### **Duties of the First Mortgage Trustee; Resignation and Removal of the First Mortgage Trustee; Deemed Resignation**

The First Mortgage Trustee will have, and will be subject to, all the duties and responsibilities specified with respect to an indenture trustee under the Trust Indenture Act. Subject to these provisions, the First Mortgage Trustee will be under no obligation to exercise



any of the powers vested in it by the First Mortgage Indenture at the request of any holder of first mortgage bonds, unless offered reasonable indemnity by such holder against the costs, expenses and liabilities which might be incurred thereby. The First Mortgage Trustee will not be required to expend or risk its own funds or otherwise incur financial liability in the performance of its duties if the First Mortgage Trustee reasonably believes that repayment or adequate indemnity is not reasonably assured to it.

The First Mortgage Trustee may resign at any time by giving written notice to the Company.

The First Mortgage Trustee may also be removed by act of the holders of a majority in principal amount of the then outstanding first mortgage bonds of any series.

No resignation or removal of the First Mortgage Trustee and no appointment of a successor trustee will become effective until the acceptance of appointment by a successor trustee in accordance with the requirements of the First Mortgage Indenture.

Under certain circumstances, the Company may appoint a successor trustee and if the successor accepts, the First Mortgage Trustee will be deemed to have resigned.

### **Evidence to be Furnished to the First Mortgage Trustee**

Compliance with First Mortgage Indenture provisions is evidenced by written statements of the Company's officers or persons selected or paid by the Company. In certain cases, opinions of counsel and certifications of an engineer, accountant, appraiser or other expert (who in some cases must be independent) must be furnished. In addition, the First Mortgage Indenture requires the Company to give to the First Mortgage Trustee, not less than annually, a brief statement as to the Company's compliance with the conditions and covenants under the First Mortgage Indenture.

### **Miscellaneous Provisions**

The First Mortgage Indenture provides that certain first mortgage bonds, including those for which payment or redemption money has been deposited or set aside in trust as described under "— Satisfaction and Discharge" above, will not be deemed to be "outstanding" in determining whether the holders of the requisite principal amount of the outstanding first mortgage bonds have given or taken any demand, direction, consent or other action under the First Mortgage Indenture as of any date, or are present at a meeting of holders for quorum purposes.

The Company will be entitled to set any day as a record date for the purpose of determining the holders of outstanding first mortgage bonds of any series entitled to give or take any demand, direction, consent or other action under the First Mortgage Indenture, in the manner and subject to the limitations provided in the First Mortgage Indenture. In certain circumstances, the First Mortgage Trustee also will be entitled to set a record date for action by holders. If such a record date is set for any action to be taken by holders of particular first mortgage bonds, such action may be taken only by persons who are holders of such first mortgage bonds on the record date.

## **Governing Law**

The First Mortgage Indenture and the first mortgage bonds provide that they are to be governed by and construed in accordance with the laws of the State of New York except where the Trust Indenture Act is applicable or where otherwise required by law. The effectiveness of the lien of the First Mortgage Indenture, and the perfection and priority thereof, will be governed by Kentucky law.

## **Summary of the Indenture**

*The following, in addition to the provisions contained elsewhere in this Reoffering Circular, is a brief description of certain provisions of the Indenture. This description is only a summary and does not purport to be complete and definitive. Reference is made to the Indenture for the detailed provisions thereof.*

## **Security**

Pursuant to the Indenture, the Issuer has assigned and pledged to the Trustee its interest in and to the Loan Agreement, including payments and other amounts due the Issuer thereunder, together with all moneys, property and securities from time to time held by the Trustee under the Indenture (with certain exceptions, including moneys held in or earnings on the Rebate Fund and the Purchase Fund). The Bonds have been further secured by the First Mortgage Bonds delivered to the Trustee (see “Summary of the Loan Agreement — Issuance and Delivery of First Mortgage Bonds”). The First Mortgage Bonds will be registered in the name of the Trustee and will be nontransferable, except to effect a transfer to any successor trustee. The Bonds will not be directly secured by the Project (although the Project is subject to the lien of the First Mortgage Indenture).

## **No Pecuniary Liability of the Issuer**

No provision, covenant or agreement contained in the Indenture or in the Loan Agreement, nor any breach thereof, shall give rise to any pecuniary liability of the Issuer or any charge upon its general credit or taxing powers. The Issuer has not obligated itself by making the covenants, agreements or provisions contained in the Indenture or in the Loan Agreement, except with respect to the Project and the application of the amounts assigned to payment of the principal of, premium, if any, and interest on the Bonds.

## **The Bond Fund**

The payments to be made by the Company pursuant to the Loan Agreement to the Issuer and certain other amounts specified in the Indenture will be deposited into a Bond Fund established pursuant to the Indenture (the “Bond Fund”) and will be maintained in trust by the Trustee. Moneys in the Bond Fund will be used for the payment of the principal of, premium, if any, and interest on the Bonds, and for the redemption of Bonds prior to maturity in the following order of priority: (i) proceeds of the Credit Facility, if any, deposited into the Bond Fund in accordance with the Indenture and (ii) any other moneys provided by or on behalf of the

Company. Any moneys held in the Bond Fund will be invested by the Trustee at the specific written direction of the Company in certain Governmental Obligations, investment-grade corporate obligations and other investments permitted under the Indenture.

So long as a Credit Facility is then held by the Trustee and there is no default in the payment of principal or redemption price of or interest on the Bonds, any amounts in the Bond Fund provided by or on behalf of the Company will be paid to the Credit Facility Issuer to the extent of any amounts that the Company owes the Credit Facility Issuer pursuant to the Reimbursement Agreement. Any amounts remaining in the Bond Fund (first, from the proceeds of the Credit Facility, and second, from the moneys provided by or on behalf of the Company) after payment in full of the principal or redemption price of and interest on the Bonds (or provision for payment thereof) and payment of any outstanding fees and expenses of the Trustee (including its reasonable attorney fees and expenses) will be paid, first, to the Credit Facility Issuer, to the extent of any amounts that the Company owes the Credit Facility Issuer pursuant to the Reimbursement Agreement and, second, to the Company. Any amounts remaining in the Bond Fund (i) after all of the outstanding Bonds have been paid and discharged, (ii) after payment of all fees, charges and expenses to the Issuer, the Trustee, the Registrar and the Paying Agent and of all other amounts required to be paid under the Indenture and the Loan Agreement and (iii) after the receipt by the Trustee of the written request of the Company for such payment, will be paid to the Credit Facility Issuer, if any, to the extent of any amounts that the Company owes to such Credit Facility Issuer pursuant to the Reimbursement Agreement, and then to the Company to the extent that those moneys are in excess of the amounts necessary to effect the payment and discharge of the outstanding Bonds.

### **The Rebate Fund**

A Rebate Fund has been created by the Indenture (the “Rebate Fund”) and is maintained as a separate fund free and clear of the lien of the Indenture. The Issuer, the Trustee and the Company have agreed to comply with all rebate requirements of the Code and, in particular, the Company has agreed that if necessary, it will deposit in the Rebate Fund any such amount as is required under the Code. However, the Issuer, the Trustee and the Company may disregard the Rebate Fund provisions to the extent that they receive an opinion of Bond Counsel that such failure to comply will not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes.

### **Discharge of Indenture**

When all the Bonds and all fees and charges accrued and to accrue of the Trustee and the Paying Agent have been paid or provided for, and when proper notice has been given to the Bondholders or the Trustee that the proper amounts have been so paid or provided for, and if the Issuer is not in default in any other respect under the Indenture, the Indenture shall become null and void. The Bonds will be deemed to have been paid and discharged when there have been irrevocably deposited with the Trustee moneys sufficient to pay the principal, premium, if any, and accrued interest on such Bonds to the due date (whether such date be by reason of maturity or upon redemption) or, in lieu thereof, Governmental Obligations have been deposited which mature in such amounts and at such times as will provide the funds necessary to so pay such

Bonds, and when all reasonable and necessary fees and expenses of the Trustee, the Authenticating Agent, the Bond Registrar and the Paying Agent have been paid or provided for.

Notwithstanding anything to the contrary, if any Bonds are rated by a rating service, no such Bonds will be deemed to have been paid and discharged by reason of any deposit pursuant to the Indenture, unless each such rating service has confirmed in writing to the Trustee that its rating will not be withdrawn or lowered as a result of any such deposit.

So long as the Company owes any amounts to the Credit Facility Issuer, if any, pursuant to the Reimbursement Agreement: (A) the lien of the Indenture may not be discharged; (B) such Credit Facility Issuer shall be subrogated to the extent of such amounts owed by the Company to such Credit Facility Issuer to all rights of the Bondholders to enforce the payment of the Bonds from the revenues and all other rights of the Bondholders under the Bonds, the Indenture and the Loan Agreement; (C) the Bondholders will be deemed paid to the extent of money drawn by the Trustee under the Credit Facility; and (D) subject to the Indenture, the Trustee will sign, execute and deliver all documents or instruments and do all things that may be reasonably required by the Credit Facility Issuer to effect the Credit Facility Issuer's subrogation of rights of enforcement and remedies set forth in the Indenture.

### **Surrender of First Mortgage Bonds**

Upon payment of any principal of, premium, if any, and interest on any of the Bonds which reduces the principal amount of Bonds outstanding, or upon provision for the payment thereof having been made in accordance with the Indenture, First Mortgage Bonds in a principal amount equal to the principal amount of the Bonds so paid, or for the payment of which such provision has been made, shall be surrendered by the Trustee to the First Mortgage Trustee. The First Mortgage Bonds so surrendered shall be deemed fully paid and the obligations of the Company thereunder terminated.

### **Defaults and Remedies**

Each of the following events constitutes an "Event of Default" under the Indenture:

- (1) failure to make payment of any installment of interest on any Bond within a period of one Business Day from the due date;
- (2) failure to make punctual payment of the principal of, or premium, if any, on any Bond on the due date, whether at the stated maturity thereof, or upon proceedings for redemption, or upon the maturity thereof by declaration or if payment of the purchase price of any Bond required to be purchased pursuant to the Indenture is not made when such payment has become due and payable;
- (3) failure of the Issuer to perform or observe any other of the covenants, agreements or conditions in the Indenture or in the Bonds which failure continues for a period of 30 days after written notice by the Trustee, provided, however, that if such failure is capable of being cured, but cannot be cured in such 30-day period, it will not constitute an event of default under the Indenture if corrective action in respect of such failure is instituted within such 30-day period and is being diligently pursued;

- (4) the occurrence of an “event of default” under the Loan Agreement (see “Summary of the Loan Agreement — Events of Default”);
- (5) written notice from the Credit Facility Issuer to the Trustee of an event of default under the Reimbursement Agreement, by reason of which the Trustee has been directed to accelerate the Bonds;
- (6) if a Credit Facility is then held by the Trustee, on or before the close of business on the tenth calendar day following the honoring of a drawing under such Credit Facility to pay interest on the Bonds on an Interest Payment Date, written notice from the Credit Facility Issuer to the Trustee that the interest component of the Credit Facility will not be reinstated; or
- (7) all first mortgage bonds outstanding under the First Mortgage Indenture, if not already due, shall have become due and payable, whether by declaration or otherwise, and such acceleration shall not have been rescinded by the First Mortgage Trustee.

Upon the occurrence of an Event of Default under clauses (1), (2), (5), (6) or (7) above, the Trustee must: (i) enforce each and every right granted to the Trustee as a holder of the First Mortgage Bonds (see “Summary of the First Mortgage Bonds”), (ii) declare the principal of all Bonds and interest accrued thereon to be immediately due and payable, (iii) declare all payments under the Loan Agreement to be immediately due and payable and enforce each and every other right granted to the Issuer under the Loan Agreement for the benefit of the Bondholders and (iv) if a Credit Facility securing the Bonds is in effect, make an immediate drawing under the Credit Facility in accordance with its terms and deposit the proceeds of such drawing in the Bond Fund pending application to the payment of principal of the Bonds, subject to the provisions of the Indenture reserving to the Credit Facility Issuer the right to direct default proceedings and providing for termination of default proceedings upon certain occurrences.

Interest on the Bonds will cease to accrue on the date of issuance of the declaration of acceleration of payment of principal and interest on the Bonds.

In exercising such rights, the Trustee shall take any action that, in the judgment of the Trustee, would best serve the interests of the registered owners. Upon the occurrence of an Event of Default under the Indenture, the Trustee may also proceed to pursue any available remedy by suit at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Bonds then outstanding.

If an Event of Default under the Indenture shall occur and be continuing and the maturity date of the Bonds has been accelerated (to the extent the Bonds are not already due and payable) as a consequence of such event of default, the Trustee may, and upon the written request of the registered owners holding not less than 25% in principal amount of all Bonds then outstanding and upon receipt of indemnity satisfactory to it shall, exercise such rights as it shall possess under the First Mortgage Indenture as a holder of the First Mortgage Bonds and shall also issue a Redemption Demand for such First Mortgage Bonds to the First Mortgage Trustee.

If the Trustee recovers any moneys following an Event of Default, unless the principal of the Bonds shall have been declared due and payable, all such moneys shall be applied in the

following order: (i) to the payment of the fees, expenses, liabilities and advances incurred or made by the Trustee and the Paying Agent, (ii) to the payment of all interest then due on the Bonds and (iii) to the payment of unpaid principal and premium, if any, of the Bonds. If the principal of the Bonds has become due or has been accelerated, such moneys shall be applied in the following order: (i) to the payment of the fees, expenses, liabilities and advances incurred or made by the Trustee and the Paying Agent and (ii) to the payment of principal of and interest then due and unpaid on the Bonds. In each case, however, Trustee and Paying Agent fees or costs will not be payable from moneys derived from Credit Facility drawings, any remarketing proceeds or moneys constituting certain Available Moneys under the Indenture.

No Bondholder may institute any suit or proceeding in equity or at law for the enforcement of the Indenture unless an Event of Default has occurred of which the Trustee has been notified or is deemed to have notice, and registered owners holding not less than 25% in aggregate principal amount of Bonds then outstanding shall have made written request to the Trustee to proceed to exercise the powers granted under the Indenture or to institute such action in their own name and the Trustee shall fail or refuse to exercise its powers within a reasonable time after receipt of indemnity satisfactory to it.

Any judgment against the Issuer pursuant to the exercise of rights under the Indenture shall be enforceable only against specific assigned payments, funds and accounts under the Indenture in the hands of the Trustee. No deficiency judgment shall be authorized against the general credit of the Issuer.

No default under paragraph (3) above shall constitute an Event of Default until actual notice is given to the Issuer and the Company by the Trustee or to the Issuer, the Company and the Trustee by the registered owners holding not less than 25% in aggregate principal amount of all Bonds outstanding and the Issuer and the Company shall have had thirty days after such notice to correct the default and failed to do so. If the default is such that it cannot be corrected within the applicable period but is capable of being cured, it will not constitute an Event of Default if corrective action is instituted within the applicable period.

Notwithstanding the foregoing, in addition to the rights of the Trustee and the Bondholders to direct proceedings as described above, if a Credit Facility is in effect, for so long as such Credit Facility is outstanding and the Credit Facility Issuer is not in default in its duties under the Indenture or the Credit Facility, the Credit Facility Issuer will have the absolute right to direct all proceedings on behalf of the Bondholders of the Bonds. Additionally, if the Event of Default which has occurred is an Event of Default under paragraphs (5) or (6) above, the Credit Facility Issuer, if any, will have no right to direct the Trustee or the Bondholders with respect to any matters, including remedies, and the holders of a majority in aggregate principal amount of the Bonds then outstanding, will have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, or for the appointment of a receiver or any other proceedings hereunder; provided, that such direction shall not be otherwise than in accordance with the provisions of law and of the Indenture.

If an Event of Default has occurred under the Indenture due to failure by the Credit Facility Issuer, if any, to honor a properly presented and conforming drawing by the Trustee under the Credit Facility then in effect in accordance with the terms thereof, all obligations of the Trustee to the Credit Facility Issuer and all rights of such Credit Facility Issuer under the Indenture will be suspended until the earlier of the cure of such failure or all of the Bonds have been paid in full.

### **Waiver of Events of Default**

Except as provided below, the Trustee may in its discretion waive any Event of Default under the Indenture and shall do so upon the written request of the registered owners holding a majority in principal amount of all Bonds then outstanding. If, after the principal of all Bonds then outstanding shall have been declared to be due and payable and prior to any judgment or decree for the appointment of a receiver or for the payment of the moneys due shall have been entered, (i) the Company has caused to be deposited with the Trustee a sum sufficient to pay all matured installments of interest upon all Bonds and the principal of and premium, if any, on any and all Bonds which shall have become due otherwise than by reason of such declaration and the expenses of the Trustee in connection with such default (with interest thereon as provided in the Indenture) and (ii) all Events of Default under the Indenture (other than nonpayment of the principal of Bonds due by said declaration) shall have been remedied, then such Event of Default shall be deemed waived and such declaration and its consequences rescinded and annulled by the Trustee. Such waiver, rescission and annulment shall be binding upon all Bondholders. No such waiver, rescission and annulment shall extend to or affect any subsequent Event of Default or impair any right or remedy consequent thereon.

Upon any waiver or rescission as described above or any discontinuance or abandonment of proceedings under the Indenture, the Trustee shall immediately rescind in writing any Redemption Demand of First Mortgage Bonds previously given to the First Mortgage Trustee. The rescission under the First Mortgage Indenture of a declaration that all first mortgage bonds outstanding under the First Mortgage Indenture are immediately due and payable shall also constitute a waiver of an Event of Default described in paragraph (6) under the subcaption “— Defaults and Remedies” above and a waiver and rescission of its consequences, provided that no such waiver or rescission shall extend to or affect any subsequent or other default or impair any right consequent thereon.

The Trustee may not waive any default under clauses (5) or (6) above unless the Trustee has received in writing from the Credit Facility Issuer a written notice of full reinstatement of the full amount of the Credit Facility and a written rescission of the notice of the Event of Default.

Notwithstanding the foregoing, nothing in the Indenture shall affect the right of a registered owner to enforce the payment of principal of, premium, if any, and interest on the Bonds after the maturity thereof.

### **Voting of First Mortgage Bonds Held by Trustee**

The Trustee, as holder of the First Mortgage Bonds, shall attend any meeting of holders of first mortgage bonds outstanding under the First Mortgage Indenture as to which it receives



due notice. The Trustee shall vote the First Mortgage Bonds held by it, or shall consent with respect thereto, proportionally in the way in which the Trustee reasonably believes will be the vote or consent of all other holders of first mortgage bonds outstanding under the First Mortgage Indenture then eligible to vote or consent.

Notwithstanding the foregoing, the Trustee may not vote the First Mortgage Bonds in favor of, or give consent to, any action which, in the Trustee's opinion, would materially adversely affect the First Mortgage Bonds in a manner not generally shared by all other series of first mortgage bonds, except upon notification by the Trustee to the registered owners of all Bonds then outstanding of such proposal and consent thereto of the registered owners of at least 66 2/3% in aggregate principal amount of all Bonds then outstanding.

### **Supplemental Indentures**

The Issuer and the Trustee may enter into indentures supplemental to the Indenture without the consent of or notice to, the Bondholders in order (i) to cure any ambiguity or formal defect or omission in the Indenture, (ii) to grant to the Trustee, as may lawfully be granted, additional rights for the benefit of the Bondholders, (iii) to subject to the Indenture additional revenues, properties or collateral, (iv) to permit qualification of the Indenture under any federal statute or state blue sky law, (v) to add additional covenants and agreements of the Issuer for the protection of the Bondholders or to surrender or limit any rights reserved to the Issuer, (vi) to make any modification or change to the Indenture which, in the sole judgment of the Trustee, does not adversely affect the Trustee or any Bondholder, (vii) to make amendments to provisions relating to federal income tax matters under the Code or other relevant provisions if, in the opinion of Bond Counsel, those amendments would not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes, (viii) to make any modifications or changes to the Indenture necessary to provide the securing of a Credit Facility or Alternate Credit Facility or any liquidity or credit support of any kind for the security of the Bonds (including without limitation any line of credit, letter of credit, guaranty agreement or insurance coverage), including any modifications of the Indenture or the Agreement necessary to upgrade or maintain the then applicable ratings on the Bonds; or (ix) to permit the issuance of the Bonds in other than book-entry-only form or to provide changes to or for the book-entry system.

Subject to the consent of the Credit Facility Issuer, if any, exclusive of supplemental indentures for the purposes set forth in the preceding paragraph, the consent of registered owners holding a majority in principal amount of all Bonds then outstanding is required to approve any supplemental indenture, except no such supplemental indenture shall permit, without the consent of all of the registered owners of the Bonds then outstanding, (i) an extension of the maturity of the principal of or the interest on any Bond issued under the Indenture or a reduction in the principal amount of any Bond or the rate of interest or time of redemption or redemption premium thereon, (ii) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, (iii) a reduction in the principal amount of the Bonds required for consent to such supplemental indenture or (iv) the deprivation of any registered owners of the lien of the Indenture.

If at any time the Issuer shall request the Trustee to enter into any supplemental indenture requiring the consent of the registered owners of the Bonds, the Trustee, upon being

satisfactorily indemnified with respect to expenses, must notify all such registered owners. Such notice shall set forth the nature of the proposed supplemental indenture and shall state that copies thereof are on file at the principal office of the Trustee for inspection. If, within sixty days (or such longer period as shall be prescribed by the Issuer or the Company) following the mailing of such notice, the registered owners holding the requisite amount of the Bonds outstanding shall have consented to the execution thereof, no Bondholder shall have any right to object or question the execution thereof.

No supplemental indenture shall become effective unless the Company consents to the execution and delivery of such supplemental indenture. The Company shall be deemed to have consented to the execution and delivery of any supplemental indenture if the Trustee does not receive a notice of protest or objection signed by the Company on or before 4:30 p.m., local time in the city in which the principal office of the Trustee is located, on the fifteenth day after the mailing to the Company of a notice of the proposed changes and a copy of the proposed supplemental indenture.

Notwithstanding the foregoing, any Supplemental Indenture that requires the consent of the Bondholders that (i) is to become effective while a Credit Facility is in place or while any amounts are outstanding under any Reimbursement Agreement and (ii) adversely affects the Credit Facility Issuer will not become effective unless and until the Credit Facility Issuer consents in writing to the execution and delivery of such Supplemental Indenture.

#### **Cancellation of Credit Facility; Delivery of Alternate Credit Facility**

The Trustee will, at the written direction of the Company but subject to the conditions described in this paragraph and the receipt of an Opinion of Bond Counsel stating that the cancellation of such Credit Facility is authorized under the Indenture and under the Act and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes, cancel any Credit Facility in accordance with the terms thereof which cancellation may be without substitution therefor or replacement thereof; provided, that any such cancellation will not become effective, surrender of such Credit Facility will not take place and that Credit Facility will not terminate, in any event, until (i) payment by the Credit Facility Issuer has been made for any and all drawings by the Trustee effected on or before such cancellation date (including, if applicable, any drawings for payment of the purchase price of Bonds to be purchased pursuant to the Indenture in connection with such cancellation) and (ii) if the Bonds are in an Long Term Rate Period, only if the then current Long Term Rate Period for the Bonds is ending on, or the Bonds are subject to optional redemption on, the Interest Payment Date immediately preceding the date of such cancellation. Upon written notice given by the Company to the Trustee at least 20 days (35 days if the Bonds are bearing interest at the Long Term Rate) prior to the date of cancellation of any Credit Facility of such cancellation and the effective date of such cancellation, the Trustee will surrender such Credit Facility to the Credit Facility Issuer by which it was issued on or promptly after the effective date of such cancellation in accordance with its terms; provided, that such notice will not be given in any event, if the purchase price of any Bonds to be purchased pursuant to the Indenture in connection with such cancellation includes any premium unless the Company has certified in such notice that the Trustee can draw under a Credit Facility (other than any Alternate Credit Facility being delivered in connection

with such cancellation) on the purchase date related to such purchase of Bonds in an aggregate amount sufficient to pay the premium due upon such purchase of Bonds on such purchase date.

The Company may, at its option, provide for the delivery to the Trustee of an Alternate Credit Facility in replacement of any Credit Facility then in effect. At least 20 days (35 days if the Interest Rate on the Bonds is a Long Term Rate) prior to the date of delivery of an Alternate Credit Facility to the Trustee, the Company must give notice, which notice will also be given to the Remarketing Agent, of such replacement to the Trustee, together with an Opinion of Bond Counsel to the effect that the delivery of such Alternate Credit Facility to the Trustee is authorized under the Indenture and the Act and complies with the terms thereof and that the delivery of such Alternate Credit Facility will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. The Trustee will then accept such Alternate Credit Facility and surrender the previously held Credit Facility, if any, to the previous Credit Facility Issuer for cancellation promptly on or after the 5th day after the Alternate Credit Facility becomes effective; provided, however, that such Alternate Credit Facility must become effective on an Interest Payment Date and, if the Bonds are in a Long Term Rate Period, such Alternate Credit Facility may only become effective on either the last Interest Payment Date for such Long Term Rate Period or an Interest Payment Date on which the Bonds are subject to optional redemption. The notice given to the Trustee shall also be given to the Issuer, the then current Credit Facility Issuer, Moody's, if the Bonds are then rated by Moody's, and S&P, if the Bonds are then rated by S&P; provided that the notice will not be given if the purchase price of any Bonds to be purchased pursuant to the Indenture in connection with such cancellation includes any premium unless the Company has certified in such notice that the Trustee can draw under a Credit Facility then in effect on the purchase date related to such purchase of Bonds in an aggregate amount sufficient to pay the premium due upon such purchase of Bonds on such purchase date and until payment under the Credit Facility to be surrendered shall have been made for any and all drawings by the Trustee effected on or before the date of such surrender for cancellation (including, if applicable, any drawings for payment of the purchase price of Bonds to be purchased pursuant to the Indenture in connection with such cancellation).

Any Alternate Credit Facility delivered to the Trustee must be accompanied by an opinion of counsel to the issuer or provider of such Credit Facility stating that such Credit Facility is a legal, valid, binding and enforceable obligation of such issuer or obligor in accordance with its terms.

The Bonds will be subject to mandatory tender for purchase on the date of cancellation of a Credit Facility and on the date of the delivery of an Alternate Credit Facility. See "Summary of the Bonds — Mandatory Purchases of Bonds."

### **Enforceability of Remedies**

The remedies available to the Trustee, the Issuer and the owners upon an event of default under the Loan Agreement, the Indenture or the First Mortgage Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, the remedies specified by the Loan Agreement, the Indenture or the First Mortgage Indenture may not be readily available or may be

limited. The various legal opinions delivered concurrently with the delivery of the Bonds were qualified as to the enforceability of the various legal instruments by limitations imposed by principles of equity, bankruptcy, reorganization, insolvency, moratorium or other similar laws affecting the rights of creditors generally.

### **Reoffering**

Subject to the terms and conditions of the Remarketing and Bond Purchase Agreement (the "Remarketing Agreement"), between the Company and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Remarketing Agent, the Remarketing Agent has agreed to remarket the Bonds delivered to the Paying Agent for purchase, at a price equal to 100% of the principal amount of the Bonds, plus accrued interest (if any), and in connection therewith will receive customary compensation, plus reimbursement of certain expenses. Under the terms of the Remarketing Agreement, the Company has agreed to indemnify the Remarketing Agent against certain civil liabilities, including liabilities under federal securities laws.

In the ordinary course of their business, the Remarketing Agent and certain of its affiliates, have engaged, and may in the future engage, in investment banking or commercial banking transactions with the Company.

### **Tax Treatment**

On October 20, 2004, the date of original issuance and delivery of the Bonds, Bond Counsel delivered its opinion stating that under existing law, including current statutes, regulations, administrative rulings and official interpretations, subject to the qualifications and exceptions set forth below, interest on the Bonds will be excluded from the gross income of the recipients thereof for federal income tax purposes, except that no opinion will be expressed regarding such exclusion from gross income with respect to any Bond during any period in which it is held by a "substantial user" of the Project or a "related person" as such terms are used in Section 147(a) of the Code. Interest on the Bonds will be an item of tax preference in determining alternative minimum taxable income for individuals and corporations under the Code. Bond Counsel further opined that, subject to the assumptions stated in the preceding sentence, (i) interest on the Bonds would be excluded from gross income of the owners thereof for Kentucky income tax purposes and (ii) the Bonds would be exempt from all ad valorem taxes in Kentucky. Such opinion has not been updated as of the date hereof and no continuing tax exemption opinion is expressed by Bond Counsel.

Bond Counsel delivered an opinion to the effect that the delivery of the Letter of Credit (i) was authorized or permitted by Sections 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes (the "Act") and the Indenture and (ii) did not adversely affect the validity of the Bonds or any exclusion from gross income of interest on the Bonds for federal income tax purposes to which interest on the Bonds would otherwise be entitled.

The opinions of Bond Counsel as to the excludability of interest from gross income for federal income tax purposes were based upon and assumed the accuracy of certain representations of facts and circumstances, including with respect to the Project, which were within the knowledge of the Company and compliance by the Company with certain covenants

and undertakings set forth in the proceedings authorizing the Bonds which are intended to assure that the Bonds are and will remain obligations the interest on which is not includable in gross income of the recipients thereof under the law in effect on the date of such opinion. Bond Counsel did not independently verify the accuracy of the certifications and representations made by the Company and the Issuer. On the date of the opinion and subsequent to the original delivery of the Bonds on October 20, 2004, such representations of facts and circumstances must be accurate and such covenants and undertakings must continue to be complied with in order that interest on the Bonds be and remain excludable from gross income of the recipients thereof for federal income tax purposes under existing law. Bond Counsel expressed no opinion (i) regarding the exclusion of interest on any Bond from gross income for federal income tax purposes on or after the date on which any change, including any interest rate conversion, permitted by the documents other than with the approval of Bond Counsel is taken which adversely affects the tax treatment of the Bonds or (ii) as to the treatment for purposes of federal income taxation of interest on the Bonds upon a Determination of Taxability.

Bond Counsel further opined that the Code prescribed a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes, some of which, including provisions for potential payments by the Issuers to the federal government, require future or continued compliance after issuance of the Bonds in order for the interest to be and to continue to be so excluded from the date of issuance. Noncompliance with certain of these requirements by the Company or the Issuer with respect to the Bonds could cause the interest on the Bonds to be included in gross income for federal income tax purposes and to be subject to federal income taxation retroactively to the date of their issuance. The Company and the Issuer each covenanted to take all actions required of each to assure that the interest on the Bonds shall be and remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion.

The opinion of Bond Counsel as to the exclusion of interest on the Bonds from gross income for federal income tax purposes and federal tax treatment of interest on the Bonds was subject to the following exceptions and qualifications:

(a) The Code provides for a “branch profits tax” which subjects to tax, at a rate of 30%, the effectively connected earnings and profits of a foreign corporation which engages in a United States trade or business. Interest on the Bonds would be includable in the amount of effectively connected earnings and profits and thus would increase the branch profits tax liability.

(b) The Code also provides that passive investment income, including interest on the Bonds, may be subject to taxation for any S corporation with Subchapter C earnings and profits at the close of its taxable year if greater than 25% of its gross receipts is passive investment income.

Except as stated above, Bond Counsel expressed no opinion as to any federal or Kentucky tax consequences resulting from the receipt of interest on the Bonds.

Owners of the Bonds should be aware that the ownership of the Bonds may result in collateral federal income tax consequences. For instance, the Code provides that property and casualty insurance companies will be required to reduce their loss reserve deductions by 15% of the tax-exempt interest received on certain obligations, such as the Bonds, acquired after August 7, 1986. (For purposes of the immediately preceding sentence, a portion of dividends paid to an affiliated insurance company may be treated as tax-exempt interest.) The Code further provides for the disallowance of any deduction for interest expenses incurred by banks and certain other financial institutions allocable to carrying certain tax-exempt obligations, such as the Bonds, acquired after August 7, 1986. The Code also provides that, with respect to taxpayers other than such financial institutions, such taxpayers will be unable to deduct any portion of the interest expenses incurred or continued to purchase or carry the Bonds. The Code also provides, with respect to individuals, that interest on tax-exempt obligations, including the Bonds, is included in modified adjusted gross income for purposes of determining the taxability of social security and railroad retirement benefits. Furthermore, the earned income tax credit is not allowed for individuals with an aggregate amount of disqualified income within the meaning of Section 32 of the Code, which exceeds \$2,200. Interest on the Bonds will be taken into account in the calculation of disqualified income. Prospective purchasers of the Bonds should consult their own tax advisors regarding such matters and any other tax consequences of holding the Bonds.

From time to time, there are legislative proposals in Congress which, if enacted, could alter or amend one or more of the federal tax matters referred to above or could adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to obligations (such as the Bonds) issued prior to enactment.

The opinion of Bond Counsel relating to the delivery of the Letter of Credit is attached as Appendix B-2.

### **Legal Matters**

Certain legal matters in connection with the Bonds were passed upon by Stoll Keenon Ogden PLLC, Louisville, Kentucky, Bond Counsel. Certain legal matters pertaining to the Company were passed upon by Jones Day, Chicago, Illinois, and John R. McCall, Esq., former Executive Vice President, General Counsel, Corporate Secretary and Chief Compliance Officer of the Company.

### **Continuing Disclosure**

Because the Bonds are special and limited obligations of the Issuer, the Issuer is not an “obligated person” for purposes of Rule 15c2-12 (the “Rule”) promulgated by the SEC under the Exchange Act, and does not have any continuing obligations thereunder. Accordingly, the Issuer will not provide any continuing disclosure information with respect to the Bonds or the Issuer.

In order to enable the Remarketing Agent to comply with the requirements of the Rule, the Company has covenanted in a continuing disclosure undertaking agreement delivered to the Trustee for the benefit of the holders of the Bonds (the “Continuing Disclosure Agreement”) to

provide certain continuing disclosure for the benefit of the holders of the Bonds. Under its Continuing Disclosure Agreement, the Company has covenanted to take the following actions:

(a) The Company will provide to each nationally recognized municipal securities information repository (“NRMSIR”), recognized by the SEC pursuant to the Rule, and the state information depository, if any, of the Commonwealth of Kentucky (a “SID” and, together with the NRMSIR, a “Repository”) recognized by the SEC (1) annual financial information of the type set forth in Appendix A to this Reoffering Circular (including any information incorporated by reference therein) and (2) audited financial statements prepared in accordance with generally accepted accounting principles, in each case not later than 120 days after the end of the Company’s fiscal year.

(b) The Company will file in a timely manner with each NRMSIR or the Municipal Securities Rulemaking Board, and with the SID, if any, notice of the occurrence of any of the following events (if applicable) with respect to the Bonds, if material: (i) principal and interest payment delinquencies; (ii) non-payment related defaults; (iii) any unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancement facilities reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; (vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (vii) modifications to rights of the holders of the Bonds; (viii) the giving of notice of optional or unscheduled redemption of any Bonds; (ix) defeasance of the Bonds or any portion thereof; (x) release, substitution, or sale of property securing repayment of the Bonds; and (xi) rating changes with respect to the Bonds or the Company or any obligated person, within the meaning of the Rule.

(c) The Company will file in a timely manner with each Repository notice of a failure by the Company to file any of the notices or reports referred to in paragraphs (a) and (b) above by the due date.

The Company may amend its Continuing Disclosure Agreement (and the Trustee shall agree to any amendment so requested by the Company that does not change the duties of the Trustee thereunder) or waive any provision thereof, but only with a change in circumstances that arises from a change in legal requirements, change in law, or change in the nature or status of the Company with respect to the Bonds or the type of business conducted by the Company; provided that the undertaking, as amended or following such waiver, would have complied with the requirements of the Rule on the date of issuance of the Bonds, after taking into account any amendments to the Rule as well as any change in circumstances, and the amendment or waiver does not materially impair the interests of the holders of the Bonds to which such undertaking relates, in the opinion of the Trustee or counsel expert in federal securities laws acceptable to both the Company and the Trustee, or is approved by the Beneficial Owners of a majority in aggregate principal amount of the outstanding Bonds. The Company acknowledges that its undertakings pursuant to the Rule described under this heading are intended to be for the benefit for the holders of the Bonds and shall be enforceable by the holders of those Bonds or by the Trustee on behalf of such holders. Any breach by the Company of these undertakings pursuant to the Rule will not constitute an event of default under the Indenture, the Loan Agreement or the Bonds.



This Reoffering Circular has been duly approved, executed and delivered by the Company.

KENTUCKY UTILITIES COMPANY

By: /s/ Daniel K. Arbough  
Daniel K. Arbough  
Treasurer

**Appendix A**

**Kentucky Utilities Company**

Kentucky Utilities Company (“KU”), incorporated in Kentucky in 1912 and in Virginia in 1991, is a regulated utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. As of December 31, 2012, KU provides electric service to approximately 510,000 customers in 77 counties in central, southeastern and western Kentucky, to approximately 29,000 customers in 5 counties in southwestern Virginia and to less than 10 customers in Tennessee. Our service area covers approximately 4,800 noncontiguous square miles. Approximately 95% of the electricity generated by us is produced by our coal-fired electric generating stations. The remainder is generated by natural gas and oil fueled combustion turbines and a hydroelectric power plant. In Virginia, we operate under the name Old Dominion Power Company. We also sell wholesale electric energy to 12 municipalities in Kentucky under load following contracts.

KU is a wholly-owned subsidiary of LG&E and KU Energy LLC. On November 1, 2010, PPL Corporation purchased all of the interests of LG&E and KU Energy LLC and, indirectly, all of the stock of the Company from E.ON AG, making KU an indirect wholly-owned subsidiary of PPL Corporation. KU’s affiliate, Louisville Gas and Electric Company (“LG&E”), is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy and natural gas in Kentucky.

Additional information regarding KU, including audited financial statements, is available in the documents listed under the caption “Documents Incorporated by Reference,” which documents are incorporated by reference herein.

**Available Information**

KU is subject to the information requirements of the Securities Exchange Act of 1934 and, accordingly, files reports, proxy statements and other information with the Securities and Exchange Commission (“SEC”). Such reports, proxy statements and other information, as well as reports and other information regarding PPL, on file can be inspected and copied at the public reference facilities of the SEC, currently at Room 100 F Street, N.E., Room 1580, Washington, DC 20549; or from the SEC’s Web Site (<http://www.sec.gov>). Please call the SEC at 1-800-SEC-0330 for further information on the public reference room.

**Documents Incorporated By Reference**

The following documents, as filed by KU with the SEC, are incorporated herein by reference:

1. Form 10-K Annual Report of KU for the year ended December 31, 2012; and
2. Form 10-Q Quarterly Report of KU for the quarter ended March 31, 2013.

All documents filed by KU with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 subsequent to the date of this Supplement and prior to the termination of the offering of the Bonds shall be deemed to be incorporated by reference in this Appendix and to be made a part hereof from their respective dates of filing. Any statement contained in a document incorporated or deemed to be incorporated by reference in this Reoffering Circular shall be deemed to be modified or superseded for purposes of this Reoffering Circular to the extent that a statement contained in this Reoffering Circular or in any other subsequently filed document which also is or is deemed to be incorporated by reference in this Reoffering Circular modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Reoffering Circular.

**KU hereby undertakes to provide without charge to each person (including any beneficial owner) to whom a copy of this Reoffering Circular has been delivered, on the written or oral request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated in this Official Statement by reference, other than certain exhibits to such documents. Requests for such copies should be directed to Dan Arbough, Kentucky Utilities Company, One Quality Street, Lexington, Kentucky 40507, telephone: (859) 255-2100.**

**APPENDIX B**

**Opinions of Bond Counsel**

**APPENDIX B-1**

**Opinion of Bond Counsel dated October 20, 2004 relating to the 2004 Series A Bonds**

**HARPER, FERGUSON & DAVIS**

*Division of Ogden Newell & Welch PLLC*

1700 PNC PLAZA  
500 WEST JEFFERSON STREET  
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(502) 582-1601  
FAX (502) 581-9564

**SPENCER E. HARPER, JR.**

DIRECT DIAL 502-560-4249  
DIRECT FAX 502-627-8749

sharper@ogdenlaw.com

October 20, 2004

Re: \$50,000,000 County of Carroll, Kentucky, Environmental Facilities Revenue Bonds,  
2004 Series A (Kentucky Utilities Company Project)

We hereby certify that we have examined certified copies of the proceedings of record of the County of Carroll, Kentucky (the "County"), acting by and through its Fiscal Court as its duly authorized governing body, preliminary to and in connection with the issuance by the County of its Environmental Facilities Revenue Bonds, 2004 Series A (Kentucky Utilities Company Project), dated their date of issuance, in the aggregate principal amount of \$50,000,000 (the "Bonds"). The Bonds are issued under the provisions of Sections 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes (the "Act"), for the purpose of providing funds which will be used, with other funds provided by Kentucky Utilities Company (the "Company") for the current refunding of \$50,000,000 aggregate principal amount of the County's Collateralized Solid Waste Disposal Facilities Revenue Bonds (Kentucky Utilities Company Project) 1993 Series A, dated December 1, 1993 (the "Prior Bonds"), which were issued for the purpose of financing the costs of construction, acquisition, installation and equipping of certain solid waste disposal facilities to serve the Ghent Generating Station of the Company in Carroll County, Kentucky (the "Project") in order to provide for the collection, storage, treatment, processing and final disposal of solid wastes, as provided by the Act.

The Bonds mature on October 1, 2034 and bear interest initially at the Dutch Auction Rate, as defined in the Indenture, hereinafter described, subject to change as provided in such Indenture. The Bonds will be subject to optional and mandatory redemption prior to maturity at the times, in the manner and upon the terms set forth in each of the Bonds. From such examination of the proceedings of the Fiscal Court of the County referred to above and from an examination of the Act, we are of the opinion that the County is duly authorized and empowered to issue the Bonds under the laws of the Commonwealth of Kentucky now in force.

October 20, 2004

Page 2

We have examined an executed counterpart of a certain Loan Agreement, dated as of October 1, 2004 (the "Loan Agreement"), between the County and the Company and a certified copy of the proceedings of record of the Fiscal Court of the County preliminary to and in connection with the execution and delivery of the Loan Agreement, pursuant to which the County has agreed to issue the Bonds and to lend the proceeds thereof to the Company to provide funds to pay and discharge, with other funds provided by the Company, the Prior Bonds. The Company has agreed to make Loan payments to the Trustee at times and in amounts fully adequate to pay maturing principal of, interest on and redemption premium, if any, on the Bonds as same become due and payable. From such examination, we are of the opinion that such proceedings of the Fiscal Court of the County show lawful authority for the execution and delivery of the Loan Agreement; that the Loan Agreement has been duly authorized, executed and delivered by the County; and that the Loan Agreement is a legal, valid and binding obligation of the County, enforceable in accordance with its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought.

We have also examined an executed counterpart of a certain Indenture of Trust, dated as of October 1, 2004 (the "Indenture"), by and between the County and Wachovia Bank of Delaware, National Association, as trustee (the "Trustee"), securing the Bonds and setting forth the covenants and undertakings of the County in connection with the Bonds and a certified copy of the proceedings of record of the Fiscal Court of the County preliminary to and in connection with the execution and delivery of the Indenture. Pursuant to the Indenture, certain of the County's rights under the Loan Agreement, including the right to receive payments thereunder, and all moneys and securities held by the Trustee in accordance with the Indenture (except moneys and securities in the Rebate Fund created thereby) have been assigned to the Trustee, as security for the holders of the Bonds. From such examination, we are of the opinion that such proceedings of the Fiscal Court of the County show lawful authority for the execution and delivery of the Indenture; that the Indenture has been duly authorized, executed and delivered by the County; and that the Indenture is a legal, valid and binding obligation upon the parties thereto according to its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought.

In our opinion the Bonds have been validly authorized, executed and issued in accordance with the laws of the Commonwealths of Kentucky and Virginia now in full force and effect, and constitute legal, valid and binding special obligations of the County entitled to the benefit of the security provided by the Indenture and enforceable in accordance with their terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought. The Bonds are payable by the County solely and only from payments and other amounts derived from the Loan Agreement and as provided in the Indenture.



October 20, 2004

Page 3

In our opinion, under existing laws, including current statutes, regulations, administrative rulings and official interpretations by the Internal Revenue Service, subject to the exceptions and qualifications contained in the succeeding paragraphs, interest on the Bonds is excluded from the gross income of the recipients thereof for federal income tax purposes, except that no opinion is expressed regarding such exclusion from gross income with respect to any Bond during any period in which it is held by a "substantial user" of the Project or a "related person," as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Bonds is a separate item of tax preference in determining alternative minimum taxable income for individuals and corporations under the Code. In arriving at this opinion, we have relied upon representations, factual statements and certifications of the Company with respect to certain material facts which are solely within the Company's knowledge in reaching our conclusion, inter alia, that not less than 95% of the net proceeds of the Prior Bonds were used to finance solid waste disposal facilities qualified for financing under Section 142(a)(6) of the Code and the Act. Further, in arriving at the opinion set forth in this paragraph as to the exclusion from gross income of interest on the Bonds, we have assumed and this opinion is conditioned on, the accuracy of and continuing compliance by the Company and the County with representations and covenants set forth in the Loan Agreement and the Indenture which are intended to assure compliance with certain tax-exempt interest provisions of the Code. Such representations and covenants must be accurate and must be complied with subsequent to the issuance of the Bonds in order that interest on the Bonds be excluded from gross income for federal income tax purposes. Failure to comply with certain of such representations and covenants in respect of the Bonds subsequent to the issuance of the Bonds could cause the interest thereon to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. We express no opinion (i) regarding the exclusion of interest on any Bond from gross income for federal income tax purposes on or after the date on which any change, including any interest rate conversion, permitted by the documents (other than with approval of this firm) is taken which adversely affects the tax treatment of the Bonds or (ii) as to the treatment for purposes of federal income taxation of interest on the Bonds upon a Determination of Taxability. We are further of the opinion that interest on the Bonds is excluded from gross income of the recipients thereof for Kentucky income tax purposes and that the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and all political subdivisions thereof.

Our opinion as to the exclusion of interest on the Bonds from gross income for federal income tax purposes and federal tax treatment of interest on the Bonds is further subject to the following exceptions and qualifications:

(a) The Code provides for a "branch profits tax" which subjects to tax, at a rate of 30%, the effectively connected earnings and profits of a foreign corporation which engages in a United States trade or business. Interest on the Bonds would be includable in the amount of effectively connected earnings and profits and thus would increase the branch profits tax liability.

October 20, 2004

Page 4

(b) The Code also provides that passive investment income, including interest on the Bonds, may be subject to taxation for any S corporation with Subchapter C earnings and profits at the close of its taxable year if greater than 25% of its gross receipts is passive investment income.

Except as stated above, we express no opinion as to any federal or Kentucky tax consequences resulting from the receipt of interest on the Bonds.

Holders of the Bonds should be aware that the ownership of the Bonds may result in collateral federal income tax consequences. For instance, the Code provides that, for taxable years beginning after December 31, 1986, property and casualty insurance companies will be required to reduce their loss reserve deductions by 15% of the tax-exempt interest received on certain obligations, such as the Bonds, acquired after August 7, 1986. (For purposes of the immediately preceding sentence, a portion of dividends paid to an affiliated insurance company may be treated as tax-exempt interest.) The Code further provides for the disallowance of any deduction for interest expenses incurred by banks and certain other financial institutions allocable to carrying certain tax-exempt obligations, such as the Bonds, acquired after August 7, 1986. The Code also provides that, with respect to taxpayers other than such financial institutions, such taxpayers will be unable to deduct any portion of the interest expenses incurred or continued to purchase or carry the Bonds. The Code also provides, with respect to individuals, that interest on tax-exempt obligations, including the Bonds, is included in modified adjusted gross income for purposes of determining the taxability of social security and railroad retirement benefits. Furthermore, the earned income credit is not allowed for individuals with an aggregate amount of disqualified income within the meaning of section 32 of the Code, which exceeds \$2,200. Interest on the Bonds will be taken into account in the calculation of disqualified income.

We have received opinions of John R. McCall, Esq., General Counsel of the Company and Jones Day, Chicago, Illinois, counsel to the Company, of even date herewith. In rendering this opinion, we have relied upon said opinions with respect to the matters therein. We have also received an opinion of even date herewith of Hon. James C. Monk, County Attorney of the County, and relied upon said opinion with respect to the matters therein. Said opinions are in forms satisfactory to us as to both scope and content.

We express no opinion as to the title to, the description of, or the existence or priority of any liens, charges or encumbrances on, the Project.

In rendering the foregoing opinions, we are passing upon only those matters specifically set forth in such opinions and are not passing upon the investment quality of the Bonds or the accuracy or completeness of any statements made in connection with any sale thereof. The opinions herein are expressed as of the date hereof and we assume no obligation to supplement or update such opinions to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

October 20, 2004

Page 5

We are members of the Bar of the Commonwealth of Kentucky and do not purport to be experts on the laws of any jurisdiction other than the Commonwealth of Kentucky and the United States of America, and we express no opinion as to the laws of any jurisdiction other than those specified.

HARPER, FERGUSON & DAVIS  
(Division of Ogden Newell & Welch PLLC)

By   
SPENCER E. HARPER, JR.

**APPENDIX B-2**

**Opinion of Bond Counsel dated December 17, 2008 relating to the 2004 Series A Bonds**



S T O L L · K E E N O N · O G D E N  
P L L C

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December 17, 2008

County of Carroll, Kentucky  
Carrollton, Kentucky 41008

U.S. Bank National Association, as Trustee  
Nashville, Tennessee 37219

Re: Reoffering of \$50,000,000 "County of Carroll, Kentucky, Environmental Facilities Revenue Bonds, 2004 Series A (Kentucky Utilities Company Project)"

Ladies and Gentlemen:

This opinion is being furnished in accordance with the requirements of the Indenture of Trust, dated as of October 1, 2004 (the "Indenture"), between the County of Carroll, Kentucky (the "Issuer") and U.S. Bank National Association, a national banking association, as successor Trustee (the "Trustee"), pertaining to \$50,000,000 principal amount of County of Carroll, Kentucky, Environmental Facilities Revenue Bonds, 2004 Series A (Kentucky Utilities Company Project), dated October 20, 2004 (the "Bonds"), in order to satisfy certain requirements of the Indenture. Pursuant to the authority of the Indenture and an ordinance adopted by the Issuer, the Company is terminating a municipal bond new issue insurance policy insuring the Bonds and simultaneously delivering a letter of credit to the Trustee for the benefit of the Bondholders. The terms used herein denoted by initial capitals and not otherwise defined shall have the meanings specified in the Indenture.

We have examined the law and such documents and matters as we have deemed necessary to provide this opinion. As to questions of fact material to the opinions expressed herein, we have relied upon the provisions of the Indenture and related documents, and upon representations made to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, as of the date hereof, we are of the opinion that the delivery of a letter of credit and the reoffering of the Bonds as described herein (a) is authorized or permitted by the Act and the Indenture and (b) will not adversely affect the validity of the Bonds or any exclusion from gross income for federal income tax purposes to which interest on the Bonds would otherwise be entitled. Interest on the Bonds is not and will not be excluded from gross income during any period when the Bonds are held by the Company or a "related person" of the Company as defined in Section 147(a) of the Internal Revenue Code of 1986, as amended.

December 17, 2008  
Page 2

In rendering this opinion, we assume, without verifying, that the Issuer and the Company have complied and will comply with all covenants contained in the Indenture, the Loan Agreement between the Issuer and the Company, dated October 1, 2004, and other documents relating to the Bonds. We rendered our approving opinion at the time of the issuance of the Bonds relating to, among other things, the validity of the Bonds and the exclusion from federal income taxation of interest on the Bonds. We have not been requested to update or continue such opinion and have not undertaken to do so. Accordingly, we do not express any opinion with respect to the Bonds except as set forth above.

Our opinion represents our legal judgment based upon our review of the law and the facts that we deem relevant to render such opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to review or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

We express no opinion herein as to the investment quality of the Bonds or the adequacy, accuracy or completeness of any information furnished to any person in connection with any offer or sale of the Bonds.

Respectfully submitted,

  
STOLL KEENON OGDEN PLLC

## APPENDIX C

**Sumitomo Mitsui Banking Corporation, New York Branch**

*The information under this heading has been provided solely by Sumitomo Mitsui Banking Corporation, New York Branch and is believed to be reliable. This information has not been verified independently by the Company, the Issuer or the Remarketing Agent. The Company, the Issuer and the Remarketing Agent make no representation whatsoever as to the accuracy, adequacy or completeness of such information.*

**Sumitomo Mitsui Banking Corporation**

Sumitomo Mitsui Banking Corporation (*Kabushiki Kaisha Mitsui Sumitomo Ginko*) (“SMBC”) is a joint stock corporation with limited liability (*Kabushiki Kaisha*) under the laws of Japan. The registered head office of SMBC is located at 1-2, Yurakucho 1-chome, Chiyoda-ku, Tokyo, Japan.

SMBC was established in April 2001 through the merger of two leading banks, The Sakura Bank, Limited and The Sumitomo Bank, Limited. In December 2002, Sumitomo Mitsui Financial Group, Inc. (“SMFG”) was established through a stock transfer as a holding company under which SMBC became a wholly owned subsidiary. SMFG reported ¥ 141,874,426 million in consolidated total assets as of March 31, 2012.

SMBC is one of the world’s leading commercial banks and provides an extensive range of banking services to its customers in Japan and overseas. In Japan, SMBC accepts deposits, makes loans and extends guarantees to corporations, individuals, governments and governmental entities. It also offers financing solutions such as syndicated lending, structured finance and project finance. SMBC also underwrites and deals in bonds issued by or under the guarantee of the Japanese government and local government authorities, and acts in various administrative and advisory capacities for certain types of corporate and government bonds. Internationally, SMBC operates through a network of branches, representative offices, subsidiaries and affiliates to provide many financing products including syndicated lending and project finance.

The New York Branch of SMBC is licensed by the State of New York Banking Department to conduct branch banking business at 277 Park Avenue, New York, New York, and is subject to examination by the State of New York Banking Department and the Federal Reserve Bank of New York.



**Financial and Other Information**

Audited consolidated financial statements for SMFG and its consolidated subsidiaries for the fiscal years ended March 31, 2012, as well as certain unaudited financial information for SMFG and SMBC for the fiscal period ended through December 31, 2012, as well as other corporate data, financial information and analyses are available in English on the website of the Parent at [www.smfg.co.jp/english](http://www.smfg.co.jp/english).

The information herein has been obtained from SMBC, which is solely responsible for its content. The delivery of the Reoffering Circular shall not create any implication that there has been no change in the affairs of SMBC since the date hereof, or that the information contained or referred herein is correct as of any time subsequent to its date.

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Supplement, dated September 25, 2014 to Reoffering Circular dated December 11, 2008, as amended and restated as of June 25, 2013 (the “Reoffering Circular”)

<b>\$54,000,000</b>	<b>\$77,947,405</b>
<b>County of Carroll, Kentucky</b>	<b>County of Carroll, Kentucky</b>
<b>Environmental Facilities Revenue</b>	<b>Environmental Facilities Revenue Bonds,</b>
<b>Refunding Bonds, 2006 Series B</b>	<b>2008 Series A</b>
<b>(Kentucky Utilities Company Project)</b>	<b>(Kentucky Utilities Company Project)</b>

Effective as of October 1, 2014, through September 26, 2017 (the Letter of Credit (as defined below) expiration date, subject to extension or earlier termination), payment of the principal of and interest on each series of the above-referenced bonds (individually, the “2006 Series B Bonds” and the “2008 Series A Bonds” and, collectively, the “Bonds”) when due will be paid with funds drawn under an irrevocable transferable direct pay letter of credit (the “Letter of Credit”) issued by

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD., NEW YORK BRANCH

The Letter of Credit will permit the U.S. Bank National Association, as successor Trustee (the “Trustee”) to draw with respect to each series of Bonds up to an amount sufficient to pay (i) the principal of such series of Bonds (or that portion of the purchase price corresponding to principal) plus (ii) interest thereon (or that portion of the purchase price corresponding to interest) up to a maximum rate of 15% per annum for at least 45 days.

Each series of Bonds will continue to bear interest at a Weekly Rate, determined by the Remarketing Agent, Merrill Lynch, Pierce, Fenner & Smith Incorporated, in accordance with the Indenture, payable on the first Business Day of each calendar month, commencing on November 1, 2014. The interest rate period, interest rate and Interest Rate Mode for each series of Bonds will be subject to change under certain conditions, as described in the Reoffering Circular. The Bonds of each series are subject to optional redemption, extraordinary optional redemption, in whole or in part, and mandatory redemption following a determination of taxability prior to maturity, as described in the Reoffering Circular. The Bonds of each series are subject to mandatory purchase on any date on which the Bonds are converted to a different Interest Rate Mode and upon the expiration of the Letter of Credit or any Alternate Credit Facility.

This supplement contains a description of the Letter of Credit and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, the issuer of the Letter of Credit. For purposes of the Reoffering Circular, the Letter of Credit is a “Credit Facility” and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch is a “Credit Facility Issuer.” Except as otherwise specified herein, information in the Reoffering Circular referred to above has not been amended or modified and the information contained herein is qualified by reference to, and should be read in conjunction with, the Reoffering Circular, including information incorporated therein by reference. Terms not otherwise defined herein shall have the meanings ascribed to them in such Reoffering Circular.



*The first paragraph under the section of the Reoffering Circular captioned “Introductory Statement” is hereby amended to read in its entirety as follows:*

This Reoffering Circular, including the cover page and appendices, is provided to furnish information in connection with the reoffering by the County of Carroll, Kentucky (the “Issuer”) of its (i) Environmental Facilities Revenue Refunding Bonds, 2006 Series B (Kentucky Utilities Company Project, in the aggregate principal amount of \$54,000,000 (the “2006 Series B Bonds”), issued pursuant to an Indenture of Trust dated as of October 1, 2006 (the “2006 Series B Indenture”) between the Issuer and U.S. Bank National Association (the “2006 Series B Trustee”), as successor Trustee, Paying Agent and Bond Registrar, as the same has been amended and restated as of September 1, 2008, and as further amended and supplemented pursuant to the Supplemental Indenture No. 1 to Amended and Restated Indenture of Trust dated as of September 1, 2010, and (ii) Environmental Facilities Revenue Bonds, 2008 Series A (Kentucky Utilities Company Project), in the aggregate principal amount of \$77,947,405 (the “2008 Series A Bonds” and, together with the 2006 Series B Bonds, the “Bonds”) issued pursuant to an Indenture of Trust dated as of August 1, 2008, as amended and supplemented pursuant to the Supplemental Indenture No. 1 to Indenture of Trust dated as of September 1, 2010 (the “2008 Series A Indenture” and, collectively with the 2006 Series B Indenture, the “Indentures”) between the Issuer and U.S. Bank National Association (the “2008 Series A Trustee” and, collectively with the 2006 Series B Trustee, the “Trustee”), as successor Trustee, Paying Agent and Bond Registrar.

*The tenth paragraph under the section of the Reoffering Circular captioned “Introductory Statement” is hereby amended to read in its entirety as follows:*

Effective October 1, 2014, the Company will cause to be delivered separate irrevocable transferable direct pay letters of credit (the “Letters of Credit”) with respect to each of the 2006 Series B Bonds and the 2008 Series A Bonds, issued by The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch (the “Bank”), to provide for the timely payment of principal of and accrued interest (calculated for at least 45 days at the maximum rate of 15% per annum) on, and purchase price of, the Bonds. The Company will be required to reimburse the Bank for all amounts drawn by the Trustee under the Letters of Credit pursuant to the terms of separate Reimbursement Agreements, each to be dated as of October 1, 2014 (collectively, the “Reimbursement Agreement”), with respect to each of the 2006 Series B Bonds and the 2008 Series A Bonds, between the Company and the Bank. Each Letter of Credit will expire on September 26, 2017 unless extended or earlier terminated.

\* \* \* \*

*The section of the Reoffering Circular captioned “The Letter of Credit” is hereby amended to read in its entirety as follows:*

### **THE LETTER OF CREDIT**

*The following summarizes certain provisions of the Letter of Credit and the Reimbursement Agreement, to which reference is made for the detailed provisions thereof. Unless otherwise defined in this Reoffering Circular, capitalized terms in the following summary are used as defined in the Letter of Credit and the Reimbursement Agreement. The Company is permitted under the Indenture to deliver an Alternate Credit Facility to replace the Letter of Credit. Any such Alternate Credit Facility must meet certain requirements described in the Indenture.*

#### **The Letter of Credit**

The Letter of Credit will be an irrevocable transferable direct pay letter of credit issued by the Bank in order to provide additional security for the payment of principal of, purchase price of, interest on and premium, if applicable, on any date when payments under the Bonds are due, including principal and interest payments and payments upon tender, redemption, acceleration or maturity of the Bonds. The Letter of Credit will provide for direct payments to or upon the order of the Trustee as set forth in the Letter of Credit in amounts sufficient to pay such amounts in accordance with the terms thereof.

The Letter of Credit will be issued in an amount equal to the aggregate principal amount of the outstanding Bonds, plus an amount that represents interest accrued thereon at an assumed maximum rate of 15% per annum for 45 days (the “Credit Amount”). The Trustee, upon compliance with the terms of the Letter of Credit, is authorized to draw up to (a) an amount sufficient (i) to pay principal of the Bonds, when due, whether at maturity or upon redemption or acceleration, and (ii) to pay the portion of the purchase price of the Bonds delivered for purchase pursuant to a demand for purchase by the owner thereof or a mandatory tender for purchase and not remarketed (a “Liquidity Drawing”) equal to the principal amount of the Bonds, plus (b) an amount not to exceed 45 days of accrued interest on the Bonds at an assumed rate of 15% per annum (i) to pay interest on the Bonds, when due, and (ii) to pay the portion of the interest accrued on the Bonds as of any Liquidity Drawing.

The amount available under the Letter of Credit will be automatically reduced by the amount of any drawing thereunder, subject to reinstatement as described below. With respect to a drawing by the Trustee solely to pay interest on the Bonds on an Interest Payment Date, the

amount available under the Letter of Credit will be automatically reinstated in the amount of such drawing effective on the earlier of (i) receipt by the Bank from the Company of reimbursement of any drawing solely to pay interest in full or (ii) at the opening of business on the eleventh calendar day after the date the Bank honors such drawing, unless the Trustee has received written notice from the Bank by the tenth calendar day after the date the Bank honors such drawing that the Bank is not so reinstating the available amount due to the Company's failure to reimburse the Bank for such drawing in full, or that an event of default has occurred and is continuing under the \$198,309,583.05 Letter of Credit Agreement dated as of October 1, 2014 among the Company, the lenders from time to time thereto, and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as Administrative Agent (the "Credit Agreement") and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as Issuing Lender, and, in either case, directing an acceleration of the Bonds pursuant to the Indenture. With respect to a Liquidity Drawing under the Letter of Credit, the amount available under the Letter of Credit will be automatically reduced by the principal amount of the Bonds purchased with the proceeds of such drawing plus the amount of accrued interest on such Bonds. In the event of the remarketing of the Bonds purchased with the proceeds of a Liquidity Drawing, the amount available under the Letter of Credit will be automatically reinstated upon receipt by the Bank or the Trustee on the Bank's behalf of an amount equal to such principal amount plus accrued interest.

The Letter of Credit will terminate on the earliest to occur of:

(i) the Bank's close of business on September 26, 2017 (such date, as extended from time to time in accordance with the Letter of Credit is defined as the "Stated Expiration Date");

(ii) the Bank's close of business on the date which is five Business Days following the date of receipt by the Bank of a certificate from the Trustee certifying that (a) no Bonds remain Outstanding within the meaning of the Indenture, (b) all drawings required to be made under the Indenture and available under the Letter of Credit have been made and honored, (c) an Alternate Credit Facility has been delivered to the Trustee in accordance with the Indenture to replace the Letter of Credit or (d) all of the outstanding Bonds were converted to Bonds bearing interest at a rate other than the Daily Rate or the Weekly Rate;

(iii) the Bank's close of business on the date of receipt by the Bank of a certificate from the Trustee confirming that the Trustee is required to terminate the Letter of Credit in accordance with the terms of the Indenture;

(iv) the date on which the Bank receives and honors an acceleration drawing certificate; or

(v) the Bank's close of business on the date which is 30 days after receipt by the Trustee of written notice from the Bank of an Event of Default under the Credit Agreement and instructing the Trustee to draw under the Letter of Credit.

Pursuant to the Credit Agreement, the Company will be obligated to reimburse the Bank for all amounts drawn under the Letter of Credit, and to pay interest on all such amounts. The Company will also agree to pay the Bank and the Administrative Agent fees for issuing and maintaining the Letter of Credit.

### **The Reimbursement Agreement**

The Reimbursement Agreement, through incorporation of the terms of the Credit Agreement, will impose various covenants and agreements, including operating covenants and a financial covenant, on the Company. Such covenants include, but are not limited to, covenants relating to (i) inspection of the books and financial records of the Company; (ii) mergers or consolidations; (iii) disposition of assets and (iv) maintenance of a ratio of Consolidated Debt to Consolidated Capitalization (in each case as to be defined in the Credit Agreement) not to exceed 70%. Any such covenants may be amended, waived or modified at any time by the Bank and without the consent of the Trustee or the holders of the Bonds. Under certain circumstances, the failure of the Company to comply with such covenants may result in a mandatory tender or acceleration of the Bonds.

An Event of Default under the Credit Agreement will constitute an Event of Default under the Reimbursement Agreement. The following events will constitute an Event of Default under the Credit Agreement:

(i) the Company shall fail to pay when due any principal on any Reimbursement Obligations; or

(ii) the Company shall fail to pay when due any interest on the Reimbursement Obligations, any fee or any other amount payable under the Credit Agreement or under any other Loan Document for five (5) days following the date such payment becomes due thereunder; or

(iii) the Company shall fail to observe or perform certain covenants or agreements contained in the Credit Agreement, including those related to mergers, disposition of assets and capitalization; or

(iv) the Company shall fail to give notice of a Default or Event of Default under the Credit Agreement within a specified number of days following knowledge of such occurrence; or

(v) the Company shall fail to observe or perform any covenant or agreement contained in the Credit Agreement or any other Loan Document (other than those covered above) for thirty (30) days after written notice thereof has been given to the defaulting party by the administrative agent, or at the request of the required lenders; or

(vi) any representation, warranty or certification made by the Company in the Credit Agreement or any other Loan Document or in any certificate, financial statement or other document delivered pursuant hereto or thereto shall prove to have been incorrect in any material respect when made or deemed made; or

(vii) the Company shall (i) fail to pay any principal or interest, regardless of amount, due in respect of any Material Debt beyond any period of grace provided with respect thereto, or (ii) fail to observe or perform any other term, covenant, condition or agreement contained in any agreement or instrument evidencing or governing any such Material Debt beyond any period of grace provided with respect thereto if the effect of any failure referred to in this clause (ii) is to cause, or to permit the holder or holders of such Material Debt or a trustee on its or their behalf to cause, such Material Debt to become due prior to its stated maturity; or

(viii) the Company shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay, or shall admit in writing its inability to pay, its debts as they become due, or shall take any corporate action to authorize any of the foregoing; or

(ix) an involuntary case or other proceeding shall be commenced against the Company seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 days; or an order for relief shall be entered against the Company under the Bankruptcy Code; or

(x) any member of the ERISA Group shall fail to pay when due an amount or amounts aggregating in excess of \$50,000,000 which it shall have become liable to pay under Title IV of ERISA; or notice of intent to terminate a Material Plan shall be filed under Title IV of ERISA by any member of the ERISA Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate, to impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or to cause a trustee to be appointed to administer any Material Plan; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Material Plan must be terminated; or there shall occur a complete or partial withdrawal from, or default, within the meaning of Section 4219(c)(5) of ERISA, with respect to, one or more Multiemployer Plans which could reasonably be expected to cause one or more members of the ERISA Group to incur a current payment obligation in excess of \$50,000,000; or

(xi) the Company shall fail within sixty (60) days to pay, bond or otherwise discharge any judgment or order for the payment of money in excess of \$20,000,000, entered against the Company that is not stayed on appeal or otherwise being appropriately contested in good faith; or

(xii) a Change of Control shall have occurred;

For purposes of the foregoing:

“Change of Control” means (i) the acquisition by any person, or two or more persons acting in concert, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended) of 25% or more of the outstanding shares of voting stock of PPL Corporation or its successors or (ii) the failure at any time of PPL Corporation or its successors to own 80% or more of the outstanding shares of the voting stock in the Company.

“Material Debt” means debt (other than debt under the Loan Documents) of the Company in a principal or face amount exceeding \$50,000,000.

*The section of the Reoffering Circular captioned “Continuing Disclosure” is hereby amended to read in its entirety as follows:*

### **Continuing Disclosure**

Because the Bonds are special and limited obligations of the Issuer, the Issuer is not an “obligated person” for purposes of Rule 15c2-12 (the “Rule”) promulgated by the SEC under the Exchange Act, and does not have any continuing obligations thereunder. Accordingly, the Issuer will not provide any continuing disclosure information with respect to the Bonds or the Issuer.

#### **2006 Series B Bonds**

In order to enable the Remarketing Agent to comply with the requirements of the Rule, the Company has covenanted in a continuing disclosure undertaking agreement delivered to the Trustee for the benefit of the holders of the 2006 Series B Bonds (the “Continuing Disclosure Agreement”) to provide certain continuing disclosure for the benefit of the holders of such Bonds. Under its Continuing Disclosure Agreement, the Company has covenanted to take the following actions:

(a) The Company will provide to each nationally recognized municipal securities information repository (“NRMSIR”), recognized by the SEC pursuant to the Rule, and the state information depository, if any, of the Commonwealth of Kentucky (a “SID” and, together with the NRMSIR, a “Repository”) recognized by the SEC (1) annual financial information of the type set forth in Appendix A to this Reoffering Circular (including any information incorporated by reference therein) and (2) audited financial statements prepared in accordance with generally accepted accounting principles, in each case not later than 120 days after the end of the Company’s fiscal year.

(b) The Company will file in a timely manner with each NRMSIR or the Municipal Securities Rulemaking Board, and with the SID, if any, notice of the occurrence of any of the following events (if applicable) with respect to the 2006 Series B Bonds, if material: (i) principal and interest payment delinquencies; (ii) non-payment related defaults; (iii) any unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancement facilities reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; (vi) adverse tax opinions or events affecting the tax-exempt status of the 2006 Series B Bonds; (vii) modifications to rights of the holders of the 2006 Series B Bonds; (viii) the giving of notice of optional or unscheduled redemption of any 2006 Series B Bonds; (ix) defeasance of the 2006 Series B Bonds or any portion thereof; (x) release, substitution, or sale of property securing repayment of the 2006 Series B Bonds; and (xi) rating changes with respect to the 2006 Series B Bonds or the Company or any obligated person, within the meaning of the Rule.

(c) The Company will file in a timely manner with each Repository notice of a failure by the Company to file any of the notices or reports referred to in paragraph (a) above by the due date.



The Company may amend its Continuing Disclosure Agreement (and the Trustee shall agree to any amendment so requested by the Company that does not change the duties of the Trustee thereunder) or waive any provision thereof, but only with a change in circumstances that arises from a change in legal requirements, change in law, or change in the nature or status of the Company with respect to the 2006 Series B Bonds or the type of business conducted by the Company; provided that the undertaking, as amended or following such waiver, would have complied with the requirements of the Rule on the date of issuance of the 2006 Series B Bonds, after taking into account any amendments to the Rule as well as any change in circumstances, and the amendment or waiver does not materially impair the interests of the holders of the 2006 Series B Bonds to which such undertaking relates, in the opinion of the Trustee or counsel expert in federal securities laws acceptable to both the Company and the Trustee, or is approved by the Beneficial Owners of a majority in aggregate principal amount of the outstanding 2006 Series B Bonds. The Company acknowledges that its undertakings pursuant to the Rule described under this heading are intended to be for the benefit for the holders of the 2006 Series B Bonds and shall be enforceable by the holders of those 2006 Series B Bonds or by the Trustee on behalf of such holders. Any breach by the Company of these undertakings pursuant to the Rule will not constitute an event of default under the Indentures, the Loan Agreements or the 2006 Series B Bonds.

### **2008 Series A Bonds**

The Rule generally requires that “obligated persons” such as the Company agree to provide (i) continuing disclosure on an annual basis of certain financial information and operating data and (ii) notices of certain specified events that could affect the credit underlying the payment obligations of the securities. However, offerings of securities that are outstanding on November 30, 2010 and that are subject purchase by the issuer on the demand of the holder, such as will be the case with respect to the 2008 Series A Bonds while bearing interest in a Daily Rate Period or a Weekly Rate Period, or while bearing interest in a Flexible Rate Period of 270 days or less, are exempt from these requirements. If the 2008 Series A Bonds are remarketed in a mode other than the Daily Rate Period, the Weekly Rate Period or the Flexible Rate Period, the Company may in the future become subject to these continuing disclosure obligations of the Rule with respect to such 2008 Series A Bonds.

*Appendix A of the Reoffering Circular is hereby amended to read in its entirety as follows:*

### **Kentucky Utilities Company**

Kentucky Utilities Company (“KU”), incorporated in Kentucky in 1912 and in Virginia in 1991, is a regulated utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. As of December 31, 2013, KU provides electric service to approximately 514,000 customers in 77 counties in central, southeastern and western Kentucky, to approximately 29,000 customers in 5 counties in southwestern Virginia and to less than 10 customers in Tennessee. Our service area covers approximately 4,800 noncontiguous square miles. Approximately 98% of the electricity generated by us is produced by our coal-fired electric generating stations. The remainder is generated by natural gas and oil fueled combustion turbines and a hydroelectric power plant. In Virginia, we operate under the name Old Dominion Power Company. We currently also sell wholesale electric energy to 12 municipalities in Kentucky under load following contracts. In April 2014, nine municipalities submitted notices of termination to cease taking power under the wholesale requirements contracts, such terminations to be effective in 2019, except in the case of one municipality with a 2017 effective date.

KU is a wholly-owned subsidiary of LG&E and KU Energy LLC and an indirect wholly-owned subsidiary of PPL Corporation. KU’s affiliate, Louisville Gas and Electric Company (“LG&E”), is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy and natural gas in Kentucky. KU’s obligations under the Loan Agreement are solely its own, and not those of any of its affiliates. None of LG&E, PPL Corporation or KU’s other affiliates will be obligated to make any payment on the Loan Agreement or the Bonds.

The information above concerning KU is only a summary and does not purport to be comprehensive. Additional information regarding KU, including audited financial statements, is available in the documents listed under the caption “Documents Incorporated by Reference,” which documents are incorporated by reference herein.

### **Risk Factors**

Investing in the Bonds involves risk. Please see the risk factors in KU’s Annual Report on Form 10-K for the year ended December 31, 2013, which is incorporated by reference in this Appendix A. Before making an investment decision, you should carefully consider these risks as well as the other information contained or incorporated by reference in this Appendix A. Risks and uncertainties not presently known to KU or that KU currently deems immaterial may also impair its business operations, its financial results and the value of the Bonds.

### **Available Information**

KU is subject to the information requirements of the Securities Exchange Act of 1934 and, accordingly, files reports, proxy statements and other information with the Securities and Exchange Commission (“SEC”). Such reports, proxy statements and other information, as well

as reports and other information regarding PPL, on file can be inspected and copied at the public reference facilities of the SEC, currently at Room 100 F Street, N.E., Room 1580, Washington, DC 20549; or from the SEC's Web Site (<http://www.sec.gov>). Please call the SEC at 1-800-SEC-0330 for further information on the public reference room.

### Documents Incorporated By Reference

The following documents, as filed by KU with the SEC, are incorporated herein by reference:

1. Form 10-K Annual Report of KU for the year ended December 31, 2013;
2. Form 10-Q Quarterly Reports of KU for the quarters ended March 31, 2014 and June 30, 2014; and
3. Form 8-K Current Report of KU filed with the SEC on August 13, 2014.

All documents filed by KU with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 subsequent to the date of this Supplement and prior to the termination of the offering of the Bonds shall be deemed to be incorporated by reference in this Appendix and to be made a part hereof from their respective dates of filing. Any statement contained in a document incorporated or deemed to be incorporated by reference in this Reoffering Circular shall be deemed to be modified or superseded for purposes of this Reoffering Circular to the extent that a statement contained in this Reoffering Circular or in any other subsequently filed document which also is or is deemed to be incorporated by reference in this Reoffering Circular modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Reoffering Circular.

**KU hereby undertakes to provide without charge to each person (including any beneficial owner) to whom a copy of this Reoffering Circular has been delivered, on the written or oral request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated in this Official Statement by reference, other than certain exhibits to such documents. Requests for such copies should be directed to Dan Arbough, Kentucky Utilities Company, One Quality Street, Lexington, Kentucky 40507, telephone: (859) 255-2100.**

*Appendix C of the Reoffering Circular is hereby amended to read in its entirety as follows:*

**The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch**

*The information under this heading has been provided solely by The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch and is believed to be reliable. This information has not been verified independently by the Company, the Issuer or the Remarketing Agent. The Company, the Issuer and the Remarketing Agent make no representation whatsoever as to the accuracy, adequacy or completeness of such information.*

**The Bank of Tokyo-Mitsubishi UFJ, Ltd.**

The Bank of Tokyo-Mitsubishi UFJ, Ltd. (“BTMU”), is a Japanese banking corporation with its head office in Tokyo, Japan. It is a wholly owned subsidiary of Mitsubishi UFJ Financial Group Inc. (the “Parent”). With 37,527 employees and approximately 839 branches worldwide (as of March 30, 2014), BTMU is Japan’s largest bank. BTMU also provides a wide range of banking and financial services worldwide, and is one of the largest banks in the world by deposits and loan portfolio. Mitsubishi UFJ Financial Group is one of the top 10 banks in the world as measured by assets and market capitalization.

As of March 31, 2014, BTMU and subsidiaries had total assets of approximately ¥201,615 billion (U.S. \$1,959 billion) and deposits of approximately ¥132,732 billion (U.S. \$1,290 billion). Net income for BTMU and subsidiaries for the Fiscal Year ended March 31, 2014, was approximately ¥754 billion (U.S. \$7.3 billion). These figures are extracted from The Annual Securities Report (Excerpt) for the Fiscal Year ended March 31, 2014, for BTMU and subsidiaries (the “Annual Securities Report”). The Annual Securities Report can be found at [www.bk.mufg.jp](http://www.bk.mufg.jp).

The financial information presented above was translated into U.S. dollars from the Japanese yen amounts set forth in the audited financial statements in the Annual Securities Report, which were prepared in accordance with the auditing standards generally accepted in Japan (“JGAAP”), and not in accordance with U.S. GAAP. The translations of the Japanese yen amounts into U.S. dollar amounts were included solely for the convenience of readers outside Japan, and were made at the rate of ¥102.92 to U.S. \$1, the approximate rate of exchange at March 31, 2014. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

The New York Branch of The Bank of Tokyo-Mitsubishi UFJ, Ltd. is licensed by the State of New York Department of Financial Services to conduct branch banking business at 1251 Avenue of the Americas, New York, New York, and is subject to examination by the State of New York Department of Financial Services, the Federal Reserve Bank of New York and the Federal Reserve Bank of San Francisco.

The Letter of Credit will be solely an obligation of BTMU, and will not be an obligation of, or otherwise guaranteed by, the Parent, and no assets of the Parent or any affiliate of BTMU or the Parent will be pledged to the payment thereof.

The information contained in this Appendix C, including financial information, relates to and has been obtained from BTMU, and is furnished solely to provide limited introductory information regarding BTMU, and does not purport to be comprehensive. Any financial information provided in this Appendix C is qualified in its entirety by the detailed information appearing in the Annual Securities Report referenced above. The delivery hereof shall not create any implication that there has been no change in the affairs of BTMU since March 31, 2014.

NOT A NEW ISSUE

BOOK-ENTRY ONLY

On February 23, 2007 and October 17, 2008, the dates on which the Bonds were originally issued, Bond Counsel delivered its opinions that stated that, subject to the conditions and exceptions set forth under the caption "Tax Treatment," under then current law, interest on each series of Bonds would be excludable from the gross income of the recipients thereof for federal income tax purposes, except that no opinion was expressed regarding such exclusion from gross income with respect to any Bond during any period in which it is held by a "substantial user" or a "related person" of the related Project as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on each series of Bonds will be an item of tax preference in determining alternative minimum taxable income for individuals and corporations under the Code. Such interest may be subject to certain federal income taxes imposed on certain corporations, including imposition of the branch profits tax on a portion of such interest. Bond Counsel was further of the opinion that interest on each series of Bonds would be excludable from the gross income of the recipients thereof for Kentucky income tax purposes and that, under then current law, the principal of each series of Bonds would be exempt from ad valorem taxes in Kentucky. Such opinions have not been updated as of the date hereof and no continuing tax exemption opinions are expressed by Bond Counsel. However, on December 19, 2008, in connection with the conversion of the interest rate mode on each series of Bonds to the Weekly Rate, Bond Counsel delivered its opinions to the effect that the conversion of the interest rate on each series of Bonds and the delivery of a letter of credit (a) was authorized or permitted by the Act and the related Indenture and (b) did not adversely affect the validity of the Bonds or any exclusion of the interest thereon from the gross income of the owners of the Bonds for federal income tax purposes. See "Tax Treatment" in this Reoffering Circular.

**\$54,000,000**  
**County of Carroll, Kentucky**  
**Environmental Facilities Revenue Refunding Bonds, 2006 Series B**  
**(Kentucky Utilities Company Project)**  
**Due: October 1, 2034**

**\$77,947,405**  
**County of Carroll, Kentucky**  
**Environmental Facilities Revenue Bonds**  
**2008 Series A**  
**(Kentucky Utilities Company Project)**  
**Due: February 1, 2032**

The Bonds of each series (individually, the "2006 Series B Bonds" and the "2008 Series A Bonds" and, collectively, the "Bonds") are special and limited obligations of the County of Carroll, Kentucky (the "Issuer"), payable by the Issuer solely from and secured by payments to be received by the Issuer pursuant to separate Loan Agreements with Kentucky Utilities Company (the "Company"), except as payable from proceeds of such Bonds or investment earnings thereon. The Bonds do not constitute general obligations of the Issuer or a charge against the general credit or taxing powers thereof or of the Commonwealth of Kentucky or any other political subdivision of Kentucky. The Bonds will not be entitled to the benefits of any financial guaranty insurance policies. Principal of, and interest on, the Bonds of each series are secured by the delivery to Deutsche Bank Trust Company Americas, as Trustee, of First Mortgage Bonds of

#### Kentucky Utilities Company

The 2006 Series B Bonds were originally issued on February 23, 2007 and the 2008 Series A Bonds were originally issued on October 17, 2008, each as a separate series, and each series currently bears interest at Weekly Rates.

Effective July 1, 2013, the Letter of Credit (as defined below) expiration date with respect to such Bonds will be extended from April 22, 2014 to April 22, 2016. The issuer of such Letter of Credit is not being changed. Accordingly, through April 22, 2016, subject to extension or earlier termination, payment of the principal of and interest on each series of the Bonds when due will be paid with funds drawn under an irrevocable transferable direct pay letter of credit (the "Letter of Credit") issued by

#### SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH

The Letter of Credit permits the Trustee to draw with respect to each series of Bonds up to an amount sufficient to pay (i) the principal of such series of Bonds (or that portion of the purchase price corresponding to principal) plus (ii) interest thereon (or that portion of the purchase price corresponding to interest) up to a maximum rate of 15% per annum for at least 45 days. For purposes of the Reoffering Circular, the Letter of Credit is a "Credit Facility" and Sumitomo Mitsui Banking Corporation, New York Branch is a "Credit Facility Issuer."

Each series of Bonds will continue to bear interest at a Weekly Rate, determined by the Remarketing Agent, Merrill Lynch, Pierce, Fenner & Smith Incorporated, in accordance with the Indenture, payable on the first Business Day of each calendar month. The interest rate period, interest rate and Interest Rate Mode for each series of Bonds will be subject to change under certain conditions, as described in this Reoffering Circular. The Bonds of each series are subject to optional redemption, extraordinary optional redemption, in whole or in part, and mandatory redemption following a determination of taxability prior to maturity, as described in this Reoffering Circular. The Bonds of each series are subject to mandatory purchase on any date on which the Bonds are converted to a different Interest Rate Mode and upon the expiration of the Letter of Credit or any Alternate Credit Facility.

The Bonds are registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository. Except as described herein, purchases of beneficial ownership interests in the Bonds will be made in book-entry-only form in denominations of \$100,000 and multiples thereof; provided that one 2008 Series A Bond may be in the denomination of, or include an additional, \$47,405. Purchasers will not receive certificates representing their beneficial interests in the Bonds. See the information contained under the caption "Summary of the Bonds — Book-Entry-Only System" below. The principal of, premium, if any, and interest on the Bonds will be paid by Deutsche Bank Trust Company Americas, as Trustee, to Cede & Co., as long as Cede & Co. is the registered owner of the Bonds. Disbursement of such payments to the DTC Participants is the responsibility of DTC, and disbursement of such payments to the purchasers of beneficial ownership interests is the responsibility of DTC's Direct and Indirect Participants, as described below.

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**Price: 100%**

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**BofA Merrill Lynch**

No dealer, broker, salesman or other person has been authorized by the Issuer, the Company or the Remarketing Agent to give any information or to make any representation with respect to the Bonds, other than those contained in this Reoffering Circular, and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. The Remarketing Agent has provided the following sentence for inclusion in this Reoffering Circular. The Remarketing Agent has reviewed the information in this Reoffering Circular in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agent does not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Reoffering Circular nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the parties referred to above since the date hereof. The information set forth herein with respect to the Issuer has been obtained from the Issuer, and all other information has been obtained from the Company and from other sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Remarketing Agent.

In connection with the reoffering of the Bonds, the Remarketing Agent may over-allot or effect transactions which stabilize or maintain the market prices of the Bonds at levels above those that might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THE REOFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.



Table of Contents

Introductory Statement.....	1
The Projects .....	4
Separate Series .....	5
The Issuer.....	5
Summary of the Bonds.....	6
Security .....	32
The Letter of Credit .....	33
Summary of the Loan Agreement.....	37
Summary of the First Mortgage Bonds.....	42
Summary of the Indenture .....	56
Enforceability of Remedies.....	65
Reoffering .....	65
Tax Treatment.....	65
Legal Matters .....	67
Continuing Disclosure .....	68
Appendix A – Kentucky Utilities Company .....	A-1
Appendix B – Opinions of Bond Counsel and Conversion Opinions of Bond Counsel .....	B-1
Appendix C – Sumitomo Mitsui Banking Corporation, New York Branch.....	C-1

**\$54,000,000**  
**County of Carroll, Kentucky**  
**Environmental Facilities Revenue**  
**Refunding Bonds, 2006 Series B**  
**(Kentucky Utilities Company Project)**  
**Due: October 1, 2034**

**\$77,947,405**  
**County of Carroll, Kentucky**  
**Environmental Facilities Revenue Bonds**  
**2008 Series A**  
**(Kentucky Utilities Company Project)**  
**Due: February 1, 2032**

### **Introductory Statement**

This Reoffering Circular, including the cover page and appendices, is provided to furnish information in connection with the reoffering by the County of Carroll, Kentucky (the “Issuer”) of its (i) Environmental Facilities Revenue Refunding Bonds, 2006 Series B (Kentucky Utilities Company Project, in the aggregate principal amount of \$54,000,000 (the “2006 Series B Bonds”), issued pursuant to an Indenture of Trust dated as of October 1, 2006 (the “2006 Series B Indenture”) between the Issuer and Deutsche Bank Trust Company Americas (the “2006 Series B Trustee”), as Trustee, Paying Agent and Bond Registrar, as the same has been amended and restated as of September 1, 2008, and as further amended and supplemented pursuant to the Supplemental Indenture No. 1 to Amended and Restated Indenture of Trust dated as of September 1, 2010, and (ii) Environmental Facilities Revenue Bonds, 2008 Series A (Kentucky Utilities Company Project), in the aggregate principal amount of \$77,947,405 (the “Bonds”) issued pursuant to an Indenture of Trust dated as of August 1, 2008, as amended and supplemented pursuant to the Supplemental Indenture No. 1 to Indenture of Trust dated as of September 1, 2010 (the “2008 Series A Indenture” and, collectively with the 2006 Series B Indenture, the “Indentures”) between the Issuer and Deutsche Bank Trust Company Americas (the “2008 Series A Trustee” and, collectively with the 2006 Series B Trustee, the “Trustee”), as Trustee, Paying Agent and Bond Registrar.

Pursuant to separate Loan Agreements by and between Kentucky Utilities Company (the “Company”) and the Issuer, dated as of October 1, 2006 (as the same have been amended and restated as of September 1, 2008 and as further amended and supplemented pursuant to the Amendment No. 1 to the Amended and Restated Loan Agreement dated as of September 1, 2010), with respect to the 2006 Series B Bonds (the “2006 Series B Loan Agreement”), and August 1, 2008 (and as further amended and supplemented pursuant to the Amendment No. 1 to the Loan Agreement dated as of September 1, 2010) with respect to the 2008 Series A Bonds (the “2008 Series A Loan Agreement” and, collectively with the 2006 Series B Loan Agreement, the “Loan Agreements”), proceeds from the sale of the Bonds, other than accrued interest, if any, paid by the initial purchasers thereof, were loaned by the Issuer to the Company. The Loan Agreements are separate undertakings by and between the Company and the Issuer.

The Company will continue to repay the loans under the 2006 Series B Loan Agreement and the 2008 Series A Loan Agreement by making payments to the applicable Trustee in sufficient amounts to pay the principal of and interest and any premium on, and purchase price of, the applicable series of Bonds. See “Summary of the Loan Agreement — General.” Pursuant to the applicable Indenture, the Issuer’s rights under the applicable Loan Agreement

(other than with respect to certain indemnification and expense payments and notification rights) were assigned to the applicable Trustee as security for the applicable series of Bonds.

For the purpose of further securing the Bonds, the Company has issued and delivered to each of the Trustees a separate tranche of the Company's First Mortgage Bonds, Collateral Series 2010 (the "First Mortgage Bonds"). The principal amount, maturity date and interest rate (or method of determining interest rates) of each such tranche of First Mortgage Bonds is identical to the principal amount, maturity date and interest rate (or method of determining interest rates) of the related series of Bonds. The First Mortgage Bonds will only be payable, and interest thereon will only accrue, as described herein. See "Summary of the Loan Agreement — Issuance and Delivery of First Mortgage Bonds" and "Summary of the First Mortgage Bonds." The First Mortgage Bonds will not provide a direct source of liquidity to pay the purchase price of Bonds tendered for purchase in accordance with the Indenture.

The First Mortgage Bonds have been issued under, and are secured by, an Indenture, dated as of October 1, 2010, as supplemented by a supplemental indenture dated as of October 15, 2010 relating to the Bonds (the "Supplemental Indenture"), (the Indenture, as so supplemented, the "First Mortgage Indenture"), between the Company and The Bank of New York Mellon, as trustee (the "First Mortgage Trustee").

The proceeds of the 2006 Series B Bonds were applied to pay and discharge all of the \$54,000,000 outstanding principal amount of County of Carroll, Kentucky, Collateralized Solid Waste Disposal Facilities Revenue Bonds (Kentucky Utilities Company Project) 1994 Series A," dated November 23, 1994, previously issued by the Issuer to finance certain solid waste disposal facilities owned by the Company (the "2006 Series B Project"). The proceeds of the 2008 Series A Bonds were applied to (i) finance the acquisition, construction, installation and equipping of certain solid waste disposal facilities owned by the Company in the amount of \$18,026,265 and (ii) pay and discharge all of the \$13,266,950 outstanding principal amount of County of Carroll, Kentucky, Environmental Facilities Revenue Bonds, 2005 Series A (Kentucky Utilities Company Project), \$13,266,950 outstanding principal amount of County of Carroll, Kentucky, Environmental Facilities Revenue Bonds, 2005 Series B (Kentucky Utilities Company Project), \$16,693,620 outstanding principal amount of County of Carroll, Kentucky, Environmental Facilities Revenue Bonds, 2006 Series A (Kentucky Utilities Company Project) and \$16,693,620 outstanding principal amount of County of Carroll, Kentucky, Environmental Facilities Revenue Bonds, 2006 Series C (Kentucky Utilities Company Project), all previously issued by the Issuer to finance certain solid waste disposal facilities (collectively, the "2008 Series A Project") owned by the Company. For information regarding the Project, see "The Project."

The Company currently is an operating subsidiary of LG&E and KU Energy LLC and PPL Corporation. Neither LG&E and KU Energy LLC nor PPL Corporation has any obligation to make any payments due under the Loan Agreement or First Mortgage Bonds or any other payments of principal, interest, premium or purchase price of the Bonds.

The Bonds currently bear interest at a Weekly Rate, but may be subsequently converted again to bear interest at a Daily Rate, a Weekly Rate, a Flexible Rate, a Semi-Annual Rate, an Annual Rate, a Long Term Rate or with respect to the 2006 Series B Bonds, a Dutch Auction

**Rate. This Reoffering Circular pertains only to the Bonds during such period of time that they bear interest at the Weekly Rate.**

The Bonds are special and limited obligations of the Issuer, and the Issuer's obligation to pay the principal of and interest and any premium on, and purchase price of, each series of the Bonds is limited solely to the revenues and other amounts received by the applicable Trustee under the applicable Indenture pursuant to the applicable Loan Agreement (and the applicable Letter of Credit (as defined below). The Bonds do not constitute an indebtedness, general obligation or pledge of the faith and credit or taxing power of the Issuer, the Commonwealth of Kentucky or any political subdivision thereof. The Bonds are not entitled to the benefits of any financial guaranty insurance policies.

Effective May 2, 2011, the Company caused to be delivered separate irrevocable transferable direct pay letters of credit (the "Letters of Credit") with respect to each of the 2006 Series B Bonds and the 2008 Series A Bonds, issued by Sumitomo Mitsui Banking Corporation, New York Branch (the "Bank"), to provide for the timely payment of principal of and accrued interest (calculated for at least 45 days at the maximum rate of 15% per annum) on, and purchase price of, the Bonds. The Company is required to reimburse the Bank for all amounts drawn by the Trustee under the Letters of Credit pursuant to the terms of separate Reimbursement Agreements, dated as of May 2, 2011 (collectively, the "Reimbursement Agreement"), with respect to each of the 2006 Series B Bonds and the 2008 Series A Bonds, between the Company and the Bank. Each Letter of Credit will expire on April 22, 2016 unless extended or earlier terminated.

Upon expiration of a Letter of Credit or any Alternate Credit Facility, the related series of Bonds will be subject to mandatory tender for purchase. See "Summary of the Bonds — Mandatory Purchases of Bonds — Mandatory Purchase upon Delivery, Cancellation, Substitution, Termination or Expiration of Any Credit Facility or Replacement with an Alternate Credit Facility." As used in this Reoffering Circular, "Bank" or "Credit Facility Issuer" refers to the Bank as the issuer of the applicable Letter of Credit and any other issuer of any Alternate Credit Facility delivered in accordance with the applicable Indenture; "Letter of Credit" or "Credit Facility" means the applicable Letter of Credit delivered under the applicable Indenture and, as applicable, any Alternate Credit Facility which may be subsequently delivered in accordance with such Indenture; and "Reimbursement Agreement" refers to the applicable initial Reimbursement Agreement under which the related Letter of Credit is provided and any subsequent agreement entered into between the Company and any other party in connection with the delivery of any Alternate Credit Facility.

Merrill Lynch, Pierce, Fenner & Smith Incorporated has been appointed under the Indentures to serve as Remarketing Agent for the Bonds. Any Remarketing Agent may resign or be removed and a successor Remarketing Agent may be appointed in accordance with the terms of the applicable Indenture and the applicable Remarketing Agreement for the Bonds between such Remarketing Agent and the Company.

Brief descriptions of the Company, the Issuer, the Bonds, the First Mortgage Bonds (including the Supplemental Indenture and the First Mortgage Indenture), the Loan Agreements, the Indentures, the Letters of Credit and the Reimbursement Agreements are included in this

Reoffering Circular. Appendix A to this Reoffering Circular has been furnished by the Company. The Issuer and Bond Counsel assume no responsibility for the accuracy or completeness of such Appendix A or such information. Appendix B to this Reoffering Circular contains the opinions of Bond Counsel delivered on the dates on which each series of the Bonds were initially issued, and the opinions of Bond Counsel delivered in connection with the conversion of each series of the Bonds to the Weekly Rate. Appendix C to this Reoffering Circular contains information about the Bank. The Issuer and Bond Counsel assume no responsibility for the accuracy or completeness of such Appendix C or such information. Such descriptions and information do not purport to be complete, comprehensive or definitive and are not to be construed as a representation or a guaranty of accuracy or completeness. All references herein to the documents are qualified in their entirety by reference to such documents, and references herein to a series of Bonds are qualified in their entirety by reference to the definitive form thereof included in the applicable Indenture. Copies of the Loan Agreements, the Indentures, the Letters of Credit and the Reimbursement Agreements will be available for inspection at the principal corporate trust office of the Trustee party thereto. The First Mortgage Indenture is available for inspection at the office of the Company in Lexington, Kentucky, and at the corporate trust office of the First Mortgage Trustee in New York, New York. Certain information relating to The Depository Trust Company (“DTC”) and the book-entry-only system has been furnished by DTC. All statements herein are qualified in their entirety by reference to each such document and, with respect to the enforceability of certain rights and remedies, to laws and principles of equity relating to or affecting generally the enforcement of creditors’ rights.

## The Projects

### 2006 Series B Project

The 2006 Series B Project has been completed, placed in operation and is the property of the Company and consists of certain solid waste disposal facilities at the Company’s Ghent Generating Station located in Carroll County, Kentucky for the collection, storage, treatment processing and final disposal of solid wastes.

### 2008 Series A Project

The 2008 Series A Project consists of the Construction Project and the Refunding Project.

Construction Project. The “Construction Project” consists of certain solid waste disposal facilities at the Company’s Ghent Generating Station, Unit 1, located in Carroll County, Kentucky for the collection, storage, treatment and final disposal of solid wastes (“Ghent Generating Station”). The Company has begun construction and fabrication of the Construction Project. The Kentucky Public Service Commission has issued a Certificate of Convenience and Necessity (“CCN”) that authorizes construction of the Construction Project. When constructed, the Construction Project will be the property of the Company.

Refunding Project. The “Refunding Project” consists of certain solid waste disposal facilities at the Ghent Generating Station for the collection, storage, treatment and final disposal of solid wastes. The Refunding Project has been completed, placed in operation and Completion

Certificates in respect thereof have been issued. The Refunding Project has and will contribute to the collection, storage, treatment, processing and final disposal of solid wastes.

### **Separate Series**

The 2006 Series B Bonds and the 2008 Series A Bonds are separate series and optional or mandatory redemption of any series may be made in the manner described below without the redemption of the other series. Similarly, a default under one of the series of Bonds or one of the Loan Agreements will not necessarily constitute a default under the other series of Bonds or Loan Agreements. Each series of Bonds can bear interest at an Interest Rate Mode different from the Interest Rate Mode borne by the other series of Bonds. Unless specifically otherwise noted, any discussion herein and under the captions “Summary of the Bonds,” “The Letter of Credit,” “Security,” “Summary of the Loan Agreement,” “Summary of the First Mortgage Bonds,” “Summary of the Indenture,” “Enforceability of Remedies” and “Tax Treatment” applies equally, but separately, to the 2006 Series B Bonds and the 2008 Series A Bonds.

As used herein under such captions with respect to the 2006 Series B Bonds, the term “Project” shall mean the 2006 Series B Project, the term “Bonds” shall mean the 2006 Series B Bonds, the term “First Mortgage Bonds” shall mean the Carroll County Tranche 5 of the First Mortgage Bonds delivered to the 2006 Series B Trustee, the term “Loan Agreement” shall mean the 2006 Series B Loan Agreement pursuant to which the Issuer loaned the proceeds from the sale of the 2006 Series B Bonds to the Company, the term “Indenture” shall mean the 2006 Series B Indenture, the term “Remarketing Agent” shall mean Merrill Lynch, Pierce, Fenner & Smith Incorporated, the terms “Trustee” and “Tender Agent” shall mean the 2006 Series B Trustee and the term “Letter of Credit” shall mean the Letter of Credit delivered to the 2006 Series B Trustee.

As used herein under such captions with respect to the 2008 Series A Bonds, the term “Project” shall mean the 2008 Series A Project, the term “Bonds” shall mean the 2008 Series A Bonds, the term “First Mortgage Bonds” shall mean the Carroll County Tranche 7 of the First Mortgage Bonds delivered to the 2008 Series A Trustee the term “Loan Agreement” shall mean the 2008 Series A Loan Agreement pursuant to which the Issuer loaned the proceeds from the sale of the 2008 Series A Bonds to the Company, the term “Indenture” shall mean the 2008 Series A Indenture, the term “Remarketing Agent” shall mean Merrill Lynch, Pierce, Fenner & Smith Incorporated, the terms “Trustee” and “Tender Agent” shall mean the 2008 Series A Trustee and the term “Letter of Credit” shall mean the Letter of Credit delivered to the 2008 Series A Trustee.

### **The Issuer**

The Issuer is a public body corporate and politic duly created and existing as a county and political subdivision under the Constitution and laws of the Commonwealth of Kentucky. The Issuer is authorized by Sections 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes (collectively, the “Act”) to (a) convert and reoffer the Bonds and (b) amend and restate and continue to perform its obligations under the Loan Agreement and the Indenture. The Issuer, through its legislative body, the Fiscal Court, has adopted one or more ordinances authorizing the issuance of the Bonds and the execution and delivery of the related documents.

THE BONDS ARE SPECIAL AND LIMITED OBLIGATIONS PAYABLE SOLELY AND ONLY FROM CERTAIN SOURCES, INCLUDING AMOUNTS TO BE RECEIVED BY THE TRUSTEE FROM THE APPLICABLE LETTER OF CREDIT AND BY OR ON BEHALF OF THE ISSUER UNDER THE APPLICABLE LOAN AGREEMENT. THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS, GENERAL OBLIGATION OR PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE ISSUER, THE COMMONWEALTH OF KENTUCKY OR ANY POLITICAL SUBDIVISION THEREOF, AND DO NOT GIVE RISE TO A PECUNIARY LIABILITY OF THE ISSUER OR A CHARGE AGAINST ITS GENERAL CREDIT OR TAXING POWERS.

### Summary of the Bonds

*Although each series of Bonds is an entirely separate issue and has been issued under a separate Indenture, each Indenture contains substantially the same terms and provisions except as otherwise noted below.*

#### General

The Bonds were issued in the aggregate principal amounts set forth on the cover page of this Reoffering Circular. The 2006 Series B Bonds will mature on October 1, 2034. The 2008 Series A Bonds will mature on February 1, 2032. The Bonds are also subject to optional redemption, extraordinary optional redemption, in whole or in part, and mandatory redemption prior to maturity as described in this Reoffering Circular.

Effective December 19, 2008 (the “Conversion Date”), the interest rate on the Bonds was converted to a Weekly Rate. The Bonds will continue to bear interest at the Weekly Rate, and interest will be payable on the first Business Day of each calendar month, until a Conversion to another Interest Rate Mode or until the maturity or redemption of the Bonds. The permitted Interest Rate Modes for the Bonds are (i) the “Flexible Rate,” (ii) the “Daily Rate,” (iii) the “Weekly Rate,” (iv) the “Semi-Annual Rate,” (v) the “Annual Rate,” (vi) the “Long Term Rate” and (vii) with respect to the 2006 Series B Bonds, the “Dutch Auction Rate.” Changes in the Interest Rate Mode will be effected, and notice of such changes will be given, as described below in “—Conversion of Interest Rate Modes and Changes of Long Term Rate Periods.”

During each Rate Period for an Interest Rate Mode (other than the Dutch Auction Rate Mode with respect to the 2006 Series B Bonds), the interest rate or rates for the Bonds in that Interest Rate Mode, and Flexible Rate Periods for Bonds accruing interest at a Flexible Rate, will be determined by the Remarketing Agent in accordance with the Indenture; provided that the interest rate or rates borne by any Bonds may not exceed the lesser of (i) the maximum interest rate permitted by applicable law or (ii) 15% per annum. With respect to the 2006 Series B Bonds, the interest rate for the Bonds that bear interest at a Dutch Auction Rate will be determined in accordance with the procedures established pursuant to the Indenture.

Interest on the Bonds which bear interest at a Flexible Rate, Daily Rate or Weekly Rate will be computed on the basis of a year of 365 or 366 days, as appropriate, and paid for the actual number of days elapsed. Interest on the Bonds which bear interest at a Semi-Annual Rate, Annual Rate or Long Term Rate will be computed on the basis of a 360-day year, consisting of



twelve 30-day months. With respect to the 2006 Series B Bonds, interest on the Bonds which bear interest at a Dutch Auction Rate will be computed on the basis of a 360-day year for the actual number of days elapsed. Interest payable on any Interest Payment Date will be payable to the registered owner of the Bond as of the Record Date for such payment; provided that in the case of Bonds bearing interest at the Flexible Rate, interest will be payable to the registered owner of such Bond on the Interest Payment Date therefor. The Record Date, in the case of interest accrued at a Daily Rate or Weekly Rate, will be the close of business on the Business Day immediately preceding each Interest Payment Date, in the case of interest accrued at a Semi-Annual Rate, Annual Rate or Long Term Rate, will be the close of business on the fifteenth day (whether or not a Business Day) of the month preceding each Interest Payment Date, and with respect to the 2006 Series B Bonds, in the case of interest accrued at a Dutch Auction Rate, will be the close of business on the second Business Day preceding each Interest Payment Date.

The Bonds initially will be issued solely in book-entry-only form through DTC (or its nominee, Cede & Co.). So long as the Bonds are held in the book-entry-only system, DTC or its nominee will be the registered owner or holder of the Bonds for all purposes of the Indenture, the Bonds and this Reoffering Circular. See “— Book-Entry-Only System” below. Individual purchases of book-entry interests in the Bonds will be made in book-entry-only form in (i) denominations of \$100,000 or any integral multiple thereof, if bearing interest at the Daily Rate or the Weekly Rate, (ii) denominations of \$100,000 or any integral multiple of \$5,000 in excess of \$100,000, if bearing interest at Flexible Rates, (iii) denominations of \$5,000 and integral multiples thereof, if bearing interest at the Semi-Annual Rate, the Annual Rate or the Long Term Rate, or (iv) with respect to the 2006 Series B Bonds, denominations of \$25,000 and integral multiples thereof, if bearing interest at a Dutch Auction Rate; provided, that with respect to the 2008 Series A Bonds, (i) if such 2008 Series A Bonds bear interest at the Daily Rate or the Weekly Rate, one 2008 Series A Bond may be in the denomination of, or include an additional \$47,405 and (ii) if such 2008 Series A Bonds bear interest at the Semi-Annual Rate, the Annual Rate, the Long Term Rate or the Flexible Rate, one 2008 Series A Bond may be in the denomination of, or include an additional \$2,405.

Except as otherwise described below for Bonds held in DTC’s book-entry-only system, the principal or redemption price of the Bonds is payable at the designated corporate trust office in New York, New York, of the Trustee, as paying agent (the “Paying Agent”). Except as otherwise described below for Bonds held in DTC’s book-entry-only system, interest on the Bonds is payable by check mailed to the owner of record; provided that interest payable on each Bond will be payable in immediately available funds by wire transfer within the continental United States or by deposit into a bank account maintained with the Trustee or a Paying Agent (i) if the Interest Rate Mode is the Daily Rate, the Weekly Rate or the Flexible Rate or, with respect to the 2006 Series B Bonds, the Dutch Auction Rate or (ii) at the written request of any owner of record holding at least \$1,000,000 aggregate principal amount of the Bonds, if the Interest Rate Mode is the Semi-Annual Rate, Annual Rate or Long Term Rate, received by the Trustee, as bond registrar (the “Bond Registrar”), at least one Business Day prior to any Record Date. Except as otherwise described below for Bonds held in DTC’s book-entry-only system, if the Interest Rate Mode is the Flexible Rate, interest payable on each Bond will be paid only upon presentation and surrender of such Bond.

Bonds may be transferred or exchanged for an equal total amount of Bonds of other authorized denominations upon surrender of such Bonds at the principal office of the Bond Registrar, accompanied by a written instrument of transfer or authorization for exchange in form and with guaranty of signature satisfactory to the Bond Registrar, duly executed by the registered owner or the owner's duly authorized attorney. Except as provided in the Indenture, the Bond Registrar will not be required to register the transfer or exchange of any Bond (i) during the fifteen days before any mailing of a notice of redemption of Bonds, (ii) after such Bond has been called for redemption or (iii) for which a registered owner has submitted a demand for purchase (see “— Purchases of Bonds on Demand of Owner” below), or which has been purchased (see “— Payment of Purchase Price” below). Registration of transfers and exchanges will be made without charge to the registered owners of Bonds, except that the Bond Registrar may require any registered owner requesting registration of transfer or exchange to pay any required tax or governmental charge.

### **The Bonds Are Not Insured**

The Bonds described in this Reoffering Circular are not insured, and holders thereof will have no recourse to, under or against any bond insurance policy or bond insurer.

### **Tender Agent**

Owners may tender their Bonds, and in certain circumstances will be required to tender their Bonds, to the Tender Agent for purchase at the times and in the manner described herein under “— Summary of Certain Provisions of the Bonds,” “— Purchases of Bonds on Demand of Owner” and “— Mandatory Purchases of Bonds.” So long as the Bonds are held in DTC's book-entry-only system, the Trustee will act as Tender Agent under the Indenture. Any successor Tender Agent appointed pursuant to the Indenture will also be a Paying Agent.

### **Remarketing Agent**

Merrill Lynch, Pierce, Fenner & Smith Incorporated will act as the Remarketing Agent with respect to the Bonds (the “Remarketing Agent”). The Remarketing Agent may resign or be removed and a successor Remarketing Agent may be appointed in accordance with the terms of the applicable Indenture and the applicable Remarketing Agreement for the Bonds between the Remarketing Agent and the Company.

### **Special Considerations Relating to the Remarketing Agent**

*The Remarketing Agent is paid by the Company.*

The Remarketing Agent's responsibilities include determining the interest rate from time to time and remarketing Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the Remarketing Agreement), all as further described herein. The Remarketing Agent is appointed by the Issuer at the request of the Company and paid by the Company for its services. As a result, the interests of the Remarketing Agent may differ from those of existing holders and potential purchasers of Bonds.

The Remarketing Agent routinely purchases bonds for its own account.

The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchases such obligations for its own account in order to achieve a successful remarketing of the obligations (i.e., because there are otherwise not enough buyers to purchase the obligations) or for other reasons. The Remarketing Agent is permitted, but not obligated, to purchase tendered Bonds for its own account and, if it does so, it may cease doing so at any time without notice. The Remarketing Agent may also make a market in the Bonds by routinely purchasing and selling Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in the Bonds. The Remarketing Agent may also sell any Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Bonds. The purchase of Bonds by the Remarketing Agent may create the appearance that there is greater third party demand for the Bonds in the market than is actually the case. The practices described above also may result in fewer Bonds being tendered in a remarketing.

Bonds may be offered at different prices on any date.

As more fully described under the caption “— Determination of Interest Rates for Interest Rate Modes,” the Remarketing Agent shall determine the minimum rate of interest per annum which in the opinion of the Remarketing Agent, would be necessary on and as of such day to remarket the Bonds in a secondary market transaction at a price equal to the principal amount thereof plus accrued interest thereon, if any, provided that such rate of interest shall not exceed 15% per annum. The interest rate will reflect, among other factors, the level of market demand for the Bonds (including whether the Remarketing Agent is willing to purchase Bonds for its own account). There may or may not be Bonds tendered and remarketed on a day that the rate on the Bonds are set, the Remarketing Agent may or may not be able to remarket any Bonds tendered for purchase on such date at par and the Remarketing Agent may sell Bonds at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Bonds at the remarketing price. In the event the Remarketing Agent owns any Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such Bonds on any date, including the day that the rate on the Bonds are set, at a discount to par to some investors.

The ability to sell the Bonds other than through the tender process may be limited.

**The Remarketing Agent may buy and sell Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender their Bonds to do so through the Trustee with appropriate notice. Thus, investors who purchase the Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Bonds other than by tendering the Bonds in accordance with the tender process.**

## Certain Definitions

As used herein, each of the following terms will have the meaning indicated.

“*Alternate Credit Facility*” means an irrevocable letter of credit, a municipal bond insurance policy, a surety bond, a line or lines of credit, a guarantee or other similar agreement or agreements or any other agreement or agreements used to provide liquidity or credit support for the Bonds, satisfactory to the Company and the Remarketing Agent and containing administrative provisions reasonably satisfactory to the Trustee, issued and delivered to the Trustee in accordance with the Indenture.

“*Annual Rate Period*” means the period beginning on, and including, the Conversion Date to the Annual Rate and ending on, and including, the day next preceding the second Interest Payment Date thereafter, and each successive twelve-month period (or portion thereof) thereafter until the day preceding the earlier of the Conversion to a different Interest Rate Mode or the maturity of the Bonds.

“*Beneficial Owner*” means the person in whose name a Bond is recorded as such by the respective systems of DTC and each DTC Participant (as defined herein) or the registered holder of such Bond if such Bond is not then registered in the name of Cede & Co.

“*Business Day*” means any day other than a Saturday or Sunday or legal holiday or a day on which banking institutions located in the City of New York, New York, or the New York Stock Exchange or banking institutions in the city in which the principal office of the Trustee, the Bond Registrar, the Tender Agent, the Paying Agent, the Auction Agent with respect to the 2006 Series B Bonds, the Company, the Credit Facility Issuer or the Remarketing Agent is located are authorized by law or executive order to close.

“*Conversion*” means any conversion from time to time in accordance with the terms of the Indenture of the Bonds from one Interest Rate Mode to another Interest Rate Mode.

“*Conversion Date*” means initially the date of original issuance of the Bonds, and thereafter means the date on which any Conversion becomes effective.

“*Credit Facility*” means an irrevocable direct pay letter of credit or other credit enhancement or liquidity support facility, or any combination thereof, delivered to and in favor of the Trustee for the benefit of the owners of the Bonds pursuant to the Indenture and designated as a “Credit Facility” under the Indenture, and includes any Alternate Credit Facility delivered to the Trustee pursuant to the Indenture.

“*Credit Facility Issuer*” means the issuer of any Credit Facility or Alternate Credit Facility subsequently in effect.

“*Daily Rate Period*” means the period beginning on, and including, the Conversion Date to the Daily Rate and ending on and including the day preceding the next Business Day and each period thereafter beginning on and including a Business Day and ending on and including the day preceding the next succeeding Business Day until the day preceding the earlier of the Conversion to a different Interest Rate Mode or the maturity of the Bonds.

“*Dutch Auction Rate*” means, with respect to the 2006 Series B Bonds, the rate of interest to be borne by the Bonds during each Dutch Auction Rate Period determined in accordance with the 2006 Series B Indenture.

“*Dutch Auction Rate Period*” means, with respect to the 2006 Series B Bonds, each period during which the 2006 Series B Bonds bear interest at a Dutch Auction Rate.

“*Flexible Rate*” means the Interest Rate Mode for the Bonds in which the interest rate for each Bond is determined with respect to such Bond during each Flexible Rate Period applicable to that Bond, as provided in the Indenture.

“*Flexible Rate Period*” means with respect to any Bond, each period (which may be from one day to 270 days, or such lower maximum number of days as is then permitted under the Indenture) determined for such Bond, as provided in the Indenture.

“*Interest Payment Date*” means (i) if the Interest Rate Mode is the Daily Rate or the Weekly Rate, the first Business Day of each calendar month, (ii) if the Interest Rate Mode is the Flexible Rate, for each Bond the last day of each Flexible Rate Period for such Bond (or if such day is not a Business Day, the next succeeding Business Day), (iii) if the Interest Rate Mode is the Semi-Annual Rate, the Annual Rate or the Long Term Rate, June 1 and December 1, and, in the case of the Long Term Rate, also the Conversion Date or the effective date of a change to a new Long Term Rate Period, (iv) with respect to the 2006 Series B Bonds, if the Interest Rate Mode is the Dutch Auction Rate Period, the dates determined in accordance with the terms of the Indenture or (v) with respect to any Bond, the Conversion Date (including the date of a failed Conversion) or the effective date of a change to a new Long Term Rate Period for such Bond. In any case, the final Interest Payment Date will be the maturity date of the Bonds.

“*Interest Period*” means for all Bonds (or for any Bond if the Interest Rate Mode is the Flexible Rate) the period from and including each Interest Payment Date to and including the day immediately preceding the next Interest Payment Date, provided, however that the first Interest Period for the Bonds will begin on (and include) the date of issuance of the Bonds and the final Interest Period will end on September 30, 2034, with respect to the 2006 Series B Bonds, or January 31, 2032, with respect to the 2008 Series A Bonds.

“*Interest Rate Mode*” means the Flexible Rate, the Daily Rate, the Weekly Rate, the Semi-Annual Rate, the Annual Rate, the Long Term Rate for each series of the Bonds and, with respect to the 2006 Series B Bonds, the Dutch Auction Rate.

“*Long Term Rate Period*” means any period established by the Company as hereinafter set forth under “— Determination of Interest Rates for Interest Rate Modes — Long Term Rates and Long Term Rate Periods” and beginning on, and including, the Conversion Date to the Long Term Rate and ending on, and including, the day preceding the last Interest Payment Date for such period and, thereafter, each successive period of the same duration as the Long Term Rate Period previously established until the day preceding the earliest of the change to a different Long Term Rate Period, the Conversion to a different Interest Rate Mode or the maturity of the Bonds.

“*Maximum Rate*” means the lesser of (i) the maximum interest rate permitted by applicable law or (ii) 15%.

“*Prevailing Market Conditions*” means, without limitation, the following factors: existing short-term or long-term market rates for securities, the interest on which is excluded from gross income for federal income tax purposes; indexes of such short-term or long-term rates and the existing market supply and demand for securities bearing such short-term or long-term rates; existing yield curves for short-term or long-term securities for obligations of credit quality comparable to the Bonds, the interest on which is excluded from gross income for federal income tax purposes; general economic conditions; industry economic and financial conditions that may affect or be relevant to the Bonds; and such other facts, circumstances and conditions as the Remarketing Agent, in its sole discretion, determines to be relevant.

“*Purchase Date*” means any date on which Bonds are to be purchased on the demand of the registered owners thereof or are subject to mandatory purchase as described in the Indenture.

“*Reimbursement Agreement*” means a reimbursement agreement between the Company and the Credit Facility Issuer, as the same may be amended from time to time, and any other agreement between the Company and a Credit Facility Issuer, setting forth the obligations of the Company to such Credit Facility Issuer arising out of any payments under such Credit Facility and which provides that it will be deemed to be a Reimbursement Agreement for the purpose of the Indenture.

“*Semi-Annual Rate Period*” means any period beginning on, and including, the Conversion Date to the Semi-Annual Rate, and ending on, and including, the day preceding the first Interest Payment Date thereafter and each successive six-month period thereafter beginning on and including an Interest Payment Date and ending on and including the day next preceding the next Interest Payment Date until the day preceding the earlier of the Conversion to a different Interest Rate Mode or the maturity of the Bonds.

“*Weekly Rate Period*” means, (i) with respect to the 2006 Series B Bonds, the period beginning on, and including the Conversion Date to the Weekly Rate, and ending on, and including, the next Thursday, and thereafter the period beginning on, and including any Friday and ending on, and including, the earliest of the next Thursday, the day preceding the Conversion to a different Interest Rate Mode or the maturity of the Bonds, and (ii) with respect to the 2008 Series A Bonds, the period beginning on, and including, the Conversion Date to the Weekly Rate, and ending on, and including, the next Wednesday, and thereafter the period beginning on, and including, any Thursday and ending on, and including, the earliest of the next Wednesday, the day preceding the Conversion to a different Interest Rate Mode or the maturity of the Bonds.

### Summary of Certain Provisions of the Bonds

The following table summarizes, for each of the permitted Interest Rate Modes (except the Dutch Auction Rate with respect to the 2006 Series B Bonds): the dates on which interest will be paid (*Interest Payment Dates*); the dates on which each interest rate will be determined (*Interest Rate Determination Dates*); the period of time (*Interest Rate Periods*) each interest rate will be in effect (provided that the initial Interest Rate Period for each Interest Rate Mode may begin on a different date from that specified, which date will be the Conversion Date or the date of a change in the Long Term Rate, as applicable); the dates on which registered owners may tender their Bonds for purchase to the Tender Agent and the notice requirements therefor (provided that while the Bonds are held in book-entry-only form, all notices of tender for purchase will be given by Beneficial Owners in the manner described below under “Purchases of Bonds on Demand of Owner — Notice Required for Purchases”) (*Purchase on Demand of Owner; Required Notice*); the dates on which Bonds are subject to mandatory tender for purchase (*Mandatory Purchase Dates*); the redemption provisions applicable to the Bonds (*Redemption*); the notice requirements for redemption and mandatory tender for purchase (*Notices of Redemption and Mandatory Purchases*); and the manner by which registered owners will receive payments of principal, interest, redemption price and purchase price (*Manner of Payment*). All times stated are New York City time. Provisions relating to the Bonds while they bear interest at a Dutch Auction Rate, with respect to the 2006 Series B Bonds, will be determined in accordance with auction procedures established at the time of conversion to the Dutch Auction Rate.



	<u>FLEXIBLE RATE</u>	<u>DAILY RATE</u>	<u>WEEKLY RATE</u>
<b>Interest Payment Dates</b>	With respect to any Bond, the last day of each Flexible Rate Period (or if such day is not a Business Day, the next succeeding Business Day).	The first Business Day of each calendar month.	The first Business Day of each calendar month.
<b>Interest Rate Determination Dates</b>	For each Bond, not later than 12:00 noon on the first day of each Flexible Rate Period for such Bond.	Not later than 9:30 a.m. on each Business Day.	Not later than 4:00 p.m. on the day preceding the first day of each Weekly Rate Period or, if not a Business Day, on the next preceding Business Day.
<b>Interest Rate Periods</b>	For each Bond, each Flexible Rate Period will be of a duration designated by the Remarketing Agent of one day to 270 days (or lower maximum number as specified in the Indenture); must end on a day immediately preceding a Business Day.	From and including each Business Day to but not including the next Business Day.	From and including each Friday to and including the following Thursday for the 2006 Series B Bonds.  From and including each Thursday to and including the following Wednesday for the 2008 Series A Bonds.
<b>Purchase on Demand of Owner; Required Notice*</b>	No purchase on demand of the owner.	Any Business Day; by written or telephonic notice, promptly, with respect to the 2006 Series B Bonds, or immediately, with respect to the 2008 Series A Bonds, confirmed in writing, to the Tender Agent by 10:00 a.m. on such Business Day.	Any Business Day; by written notice to the Tender Agent not later than 5:00 p.m. on a Business Day at least seven days prior to the Purchase Date.
<b>Mandatory Purchase Dates</b>	Any Conversion Date; and with respect to each Bond, on each Interest Payment Date for such Bond; and upon delivery, cancellation, substitution, termination or expiration of any Credit Facility or replacement with Alternate Credit Facility.	Any Conversion Date; and upon delivery, cancellation, substitution, termination or expiration of any Credit Facility or replacement with Alternate Credit Facility.	Any Conversion Date; and upon delivery, cancellation, substitution, termination or expiration of any Credit Facility or replacement with Alternate Credit Facility.
<b>Redemption</b>	Optional at par on any Interest Payment Date; Extraordinary Optional and Mandatory at par, on any Business Day (other than extraordinary optional redemption as a result of damage, destruction or condemnation which will be on an Interest Payment Date).	Optional, Extraordinary Optional and Mandatory at par on any Business Day.	Optional, Extraordinary Optional and Mandatory at par on any Business Day.
<b>Notices of Conversion, Redemption and Mandatory Purchases*</b>	Not fewer than 15 days (30 days notice of Conversion to the Semi-Annual, Annual or Long Term Rate) or greater than 45 days. No notice of mandatory purchase following end of each Flexible Rate Period.	Not fewer than 15 days (30 days notice of Conversion to the Semi-Annual, Annual or Long Term Rate) or greater than 45 days.	Not fewer than 15 days (30 days notice of Conversion to the Semi-Annual, Annual or Long Term Rate) or greater than 45 days.
<b>Manner of Payment*</b>	Principal or redemption price upon surrender of the Bond to the Paying Agent; purchase price upon surrender of the Bond to the Tender Agent.	Principal or redemption price upon surrender of the Bond to the Paying Agent; purchase price upon surrender of the Bond to the Tender Agent.	Principal or redemption price upon surrender of the Bond to the Paying Agent; purchase price upon surrender of the Bond to the Tender Agent.

\* So long as DTC or its nominee is the registered owner of the Bonds, notices of redemption and mandatory purchases shall be sent to Cede & Co., payments of principal, redemption and purchase price of and interest on the Bonds will be paid through the facilities of DTC and notices of mandatory purchase may be given not less than five days prior to the Purchase Date. See “— Book-Entry-Only System” below.

	<u>SEMI-ANNUAL</u>	<u>ANNUAL</u>	<u>LONG TERM</u>
<b>Interest Payment Date</b>	Each June 1 and December 1.	Each June 1 and December 1.	Each June 1 and December 1; any Conversion Date; and the effective date of any change to a new Long Term Rate Period.
<b>Interest Rate Determination Dates</b>	Not later than 2:00 p.m. on the Business Day preceding the first day of the Semi-Annual Rate Period.	Not later than 12:00 noon on the Business Day preceding the first day of the Annual Rate Period.	Not later than 12:00 noon on the Business Day preceding the first day of the Long Term Rate Period.
<b>Interest Rate Periods</b>	Each six-month period from and including each June 1 and December 1 to and including the day preceding the next Interest Payment Date.	Each period from and including the Conversion Date to the Annual Rate to and including the day immediately preceding the second Interest Payment Date thereafter and each successive twelve month period thereafter.	Each period designated by the Company of more than one year in duration and which is an integral multiple of six months, from and including the first day of such period (June 1 and December 1) to and including the day immediately preceding the last Interest Payment Date for that period.
<b>Purchase on Demand of Owner; Required Notice*</b>	On any Interest Payment Date; by written notice to the Tender Agent on any Business Day not later than the fifteenth day prior to the Purchase Date.	On the final Interest Payment Date for the Annual Rate Period; by written notice to the Tender Agent on any Business Day not later than the fifteenth day prior to the Purchase Date.	On the final Interest Payment Date for the Long Term Rate Period; by written notice to the Tender Agent on a Business Day not later than the fifteenth day prior to the Purchase Date.
<b>Mandatory Purchase Dates</b>	Any Conversion Date; the first Business Day after the end of each Semi-Annual Rate Period; and upon delivery, cancellation, substitution, termination or expiration of any Credit Facility or replacement with Alternate Credit Facility.	Any Conversion Date; the first Business Day after the end of each Annual Rate Period; and upon delivery, cancellation, substitution, termination or expiration of any Credit Facility or replacement with Alternate Credit Facility.	Any Conversion Date; the first Business Day after the end of each Long Term Rate Period; the effective date of a change of Long Term Rate Period; and upon delivery, cancellation, substitution, termination or expiration of any Credit Facility or replacement with Alternate Credit Facility.
<b>Redemption</b>	Optional at par on any Interest Payment Date; Extraordinary Optional and Mandatory at par, on any Business Day (other than extraordinary optional redemption as a result of damage, destruction or condemnation which will be on an Interest Payment Date).	Optional at par on the final Interest Payment Date; Extraordinary Optional and Mandatory at par, on any Business Day.	Optional at times and prices dependent on the length of the Long Term Rate Period; Extraordinary Optional and Mandatory at par, on any Business Day.
<b>Notices of Conversion, Redemption and Mandatory Purchases*</b>	Not fewer than 15 days (30 days for notice of Conversion or redemption) or greater than 45 days.	Not fewer than 15 days (30 days for notice of Conversion or redemption) or greater than 45 days.	Not fewer than 15 days (30 days for notice of Conversion or redemption) or greater than 45 days.
<b>Manner of Payment*</b>	Principal or redemption price upon surrender of the Bond to the Paying Agent; interest by check mailed to the registered owners or, upon request of registered owner, of \$1,000,000 or more of an individual issue of Bonds, in immediately available funds; purchase price upon surrender of the Bond to the Tender Agent.	Principal or redemption price upon surrender of the Bond to the Paying Agent; interest by check mailed to the registered owners or, upon request of registered owner, of \$1,000,000 or more of an individual issue of Bonds, in immediately available funds; purchase price upon surrender of the Bond to the Tender Agent.	Principal or redemption price upon surrender of the Bond to the Paying Agent; interest by check mailed to the registered owners or, upon request of registered owner, of \$1,000,000 or more of an individual issue of Bonds, in immediately available funds; purchase price upon surrender of the Bond to the Tender Agent.

\* So long as DTC or its nominee is the registered owner of the Bonds, notices of redemption and mandatory purchases shall be sent to Cede & Co., payments of principal, redemption and purchase price of and interest on the Bonds will be paid through the facilities of DTC and notices of mandatory purchase may be given not less than five days prior to the Purchase Date. See “— Book-Entry-Only System” below.

### Determination of Interest Rates for Interest Rate Modes

Daily Rate. If the Interest Rate Mode for the Bonds is the Daily Rate, the interest rate on the Bonds for any Business Day will be the rate established by the Remarketing Agent no later than 9:30 a.m. (New York City time) on each Business Day as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell the Bonds on such Business Day at a price equal to the principal amount thereof, plus accrued interest, if any, thereon. For any day which is not a Business Day or if the Remarketing Agent does not give notice of a change in the interest rate, the interest rate on the Bonds will be the interest rate in effect for the immediately preceding Business Day.

Weekly Rate. If the Interest Rate Mode for the Bonds is the Weekly Rate, the interest rate on the Bonds for a particular Weekly Rate Period will be the rate established by the Remarketing Agent no later than 4:00 p.m. (New York City time) on the day preceding such Weekly Rate Period or, if such day is not a Business Day, on the next preceding Business Day, as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell the Bonds on such first day at a price equal to the principal amount thereof, plus accrued interest, if any, thereon.

Flexible Rates and Flexible Rate Periods. If the Interest Rate Mode for the Bonds is the Flexible Rate, the interest rate on a Bond for a specific Flexible Rate Period will be the rate established by the Remarketing Agent no later than 12:00 noon (New York City time) on the first day of that Flexible Rate Period as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell such Bond on that day at a price equal to the principal amount thereof. Each Flexible Rate Period applicable for a Bond will be determined separately by the Remarketing Agent on or prior to the first day of such Flexible Rate Period as being the Flexible Rate Period permitted under the Indenture which, in the judgment of the Remarketing Agent, taking into account then Prevailing Market Conditions, will, with respect to such Bond, ultimately produce the lowest overall interest cost on the Bonds while the Interest Rate Mode for the Bonds is the Flexible Rate. Each Flexible Rate Period will be from one day to 270 days in length and will end on a day preceding a Business Day. If the Remarketing Agent fails to set the length of a Flexible Rate Period for any Bond, a new Flexible Rate Period lasting to, but not including, the next Business Day (or until the earlier Conversion or maturity of the Bonds) will be established automatically in accordance with the Indenture.

Semi-Annual Rate. If the Interest Rate Mode for the Bonds is the Semi-Annual Rate, the interest rate on the Bonds for a particular Semi-Annual Rate Period will be the rate established by the Remarketing Agent no later than 2:00 p.m. (New York City time) on the Business Day immediately preceding the first day of such Semi-Annual Rate Period as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell the Bonds on such first day at a price equal to the principal amount thereof.

Annual Rate. If the Interest Rate Mode for the Bonds is the Annual Rate, the interest rate on the Bonds for a particular Annual Rate Period will be the rate of interest established by the Remarketing Agent no later than 12:00 noon (New York City time) on the Business Day preceding the first day of such Annual Rate Period as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell the Bonds on such first day at a price equal to the principal amount thereof.

Dutch Auction Rate. With respect to the 2006 Series B Bonds, if the Interest Rate Mode for the Bonds is the Auction Rate, the interest rate on the Bonds for a particular Auction Rate Period will be the rate established in accordance with the procedures set forth in the Indenture.

Long Term Rates and Long Term Rate Periods. If the Interest Rate Mode for the Bonds is the Long Term Rate, the interest rate on the Bonds for a particular Long Term Rate Period will be the rate established by the Remarketing Agent no later than 12:00 noon (New York City time) on the Business Day preceding the first day of such Long Term Rate Period as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell the Bonds on such first day at a price equal to the principal amount thereof. The Company will establish the duration of the Long Term Rate Period at the time that it directs the Conversion of the Interest Rate Mode to the Long Term Rate, and thereafter each successive Long Term Rate Period will be the same as the Long Term Rate Period so established by the Company until a different Long Term Rate Period is specified by the Company in accordance with the Indenture (in which case the duration of that Long Term Rate Period will control succeeding Long Term Rate Periods), subject in all cases to the occurrence of a Conversion Date or the maturity of the Bonds. Each Long Term Rate Period will be more than one year in duration, will be for a period which is an integral multiple of six months and will end on the day next preceding an Interest Payment Date; provided that if a Long Term Rate Period commences on a date other than a June 1 or December 1, such Long Term Rate Period may be for a period which is not an integral multiple of six months but will be of a duration as close as possible to (but not in excess of) such Long Term Rate Period established by the Company and will terminate on a day preceding an Interest Payment Date, and each successive Long Term Rate Period thereafter will be for the full period established by the Company until a different Long Term Rate Period is specified by the Company in accordance with the Indenture or until the occurrence of a Conversion Date or the maturity of the Bonds; provided further that no Long Term Rate Period will extend beyond the final maturity date of the Bonds.

Change of Long Term Rate Period. The Company may change from one Long Term Rate Period to another Long Term Rate Period on any Business Day on which the Bonds are subject to optional redemption as described under “— Redemptions — Optional Redemption” below upon notice from the Bond Registrar to the owners of Bonds as described below. With any notice of such change, the Company must also deliver an opinion of Bond Counsel stating that such change is authorized or permitted by the Act and is authorized by the Indenture and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. Notwithstanding the foregoing, the Long Term Rate Period will not be changed to a new Long Term Rate Period if (A) the Remarketing Agent has not determined the interest rate for the new Long Term Rate Period in accordance with the terms of the Indenture or

(B) the Bond Registrar receives written notice from Bond Counsel prior to the effective date of the change to the effect that the opinion of such Bond Counsel required under the Indenture has been rescinded. Upon the occurrence of any of the events described in the preceding sentence, the Bonds will bear interest at the Weekly Rate commencing on the date which would have been the effective date of the proposed change of Long Term Rate Period, subject to the provisions described under “— Conversion of Interest Rate Modes — Cancellation of Conversion of Interest Rate Mode” below.

*Notice to Owners of Change of Long Term Rate Period.* The Bond Registrar will notify each registered owner of the change of Long Term Rate Period by first class mail at least 30 days in the case of a change in the Long Term Rate Period but not more than 45 days before each effective date of a change in the Long Term Rate Period. The notice will state those matters required to be set forth therein under the Indenture.

*Failure to Determine Rate.* If for any reason the interest rate for a Bond is not determined by the Remarketing Agent, except as described above under “— Change of Long Term Rate Period” and below under “— Conversion of Interest Rate Modes — Cancellation of Conversion of Interest Rate Mode,” the interest rate for such Bond for the next succeeding interest rate period will be the interest rate in effect for such Bond for the preceding interest rate period and, pursuant to the terms of the Indenture, there will be no change in the then applicable Long Term Rate Period or any Conversion from the then applicable Interest Rate Mode. Notwithstanding the foregoing, if for any reason the interest rate for a Bond bearing interest at a Flexible Rate is not determined by the Remarketing Agent, the interest rate for such Bond for the next succeeding Interest Period will be equal to The Bond Market Association Municipal Swap Index™ (the “Municipal Index”) as defined in the Indenture, and the Interest Period for such Bond will extend through the day preceding the next Business Day, until the Trustee is notified of a new Flexible Rate and Flexible Rate Period determined for such Bond by the Remarketing Agent.

### **Conversion of Interest Rate Modes**

*Method of Conversion.* The Interest Rate Mode for the Bonds is subject to Conversion from time to time, in whole but not in part, on the dates specified below under “— Limitations on Conversion,” at the option of the Company, upon notice from the Bond Registrar to the registered owners of the Bonds, as described below. With any notice of Conversion, the Company must also deliver to the Bond Registrar and the Credit Facility Issuer an opinion of Bond Counsel stating that such Conversion is authorized or permitted by the Act and is authorized by the Indenture and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes, other than a Conversion from the Daily Rate Period to the Weekly Rate Period or from the Weekly Rate Period to the Daily Rate Period.

Conditions Precedent to Conversions. The following conditions are applicable to Conversions of the Bonds:

(a) any Credit Facility to be held by the Trustee after the Conversion Date must be sufficient to cover the principal of and accrued interest on the outstanding Bonds for the maximum Interest Period permitted for that particular Interest Rate Mode plus 10 days at the maximum interest rate, and if a Credit Facility is to be held by the Trustee after the Conversion of the Bonds to a Long Term Rate Period, that Credit Facility must also extend for the entire Long Term Rate Period plus 10 days at the maximum interest rate; and

(b) if a Credit Facility is then in effect and the purchase price of the Bonds under the Indenture includes any premium, the Trustee will be entitled to draw on that Credit Facility in an aggregate amount sufficient to pay the applicable purchase price (including such premium) or, in the alternative, available moneys will be available in the necessary amount and are applied to the payment of such premium.

Limitations on Conversion. Any Conversion of the Interest Rate Mode for the Bonds must be in compliance with the following conditions: (i) the Conversion Date must be a date on which the Bonds are subject to optional redemption (see “— Redemptions — Optional Redemption” below); provided that any Conversion from the Daily Rate Period to a Weekly Rate Period or from the Weekly Rate Period to the Daily Rate Period must be on a Friday, with respect to the 2006 Series B Bonds, or Thursday, with respect to the 2008 Series A Bonds, and, with respect to the 2006 Series B Bonds, if the Conversion is to or from a Dutch Auction Rate Period, the Conversion Date must be the last Interest Payment Date in respect of that Dutch Auction Rate Period; (ii) if the proposed Conversion Date would not be an Interest Payment Date but for the Conversion, the Conversion Date must be a Business Day; (iii) if the Conversion is from the Flexible Rate, (a) the Conversion Date may be no earlier than the latest Interest Payment Date established prior to the giving of notice to the Remarketing Agent of such proposed Conversion and (b) no further Interest Payment Date may be established while the Interest Rate Mode is then the Flexible Rate if such Interest Payment Date would occur after the effective date of that Conversion; and (iv) after a determination is made requiring mandatory redemption of all Bonds pursuant to the Indenture (see “— Redemptions” below), no change in the Interest Rate Mode may be made prior to such mandatory redemption.

Notice to Owners of Conversion of Interest Rate Mode. The Bond Registrar will notify each registered owner of the Conversion by first class mail at least 15 days (30 days in the case of Conversion from or to the Semi-Annual Rate, the Annual Rate, a Long Term Rate or, with respect to the 2006 Series B Bonds, a Dutch Auction Rate) but not more than 45 days before the Conversion Date. The notice will state those matters required to be set forth therein under the Indenture.

Cancellation of Conversion of Interest Rate Mode. Notwithstanding the foregoing, no Conversion will occur if (i) the Remarketing Agent has not determined the initial interest rate for the new Interest Rate Mode in accordance with the terms of the Indenture, (ii) the Bonds that are to be purchased are not remarketed or sold by the Remarketing Agent or (iii) the Bond Registrar receives written notice from Bond Counsel prior to the opening of business on the effective date

of Conversion to the effect that the opinion of such Bond Counsel required under the Indenture has been rescinded. If such Conversion fails to occur, such Bonds will automatically be converted to the Weekly Rate (with the first period adjusted in length so that the last day of such period will be a Wednesday) at the rate determined by the Remarketing Agent on the failed Conversion Date or, with respect to the 2006 Series B Bonds that bear interest at a Dutch Auction Rate, such Bonds will remain in such Interest Rate Mode; provided, that there must be delivered to the Issuer, the Trustee, the Bond Registrar, the Tender Agent, the Company, the Credit Facility Issuer and the Remarketing Agent an opinion of Bond Counsel to the effect that determining the interest rate to be borne by the Bonds at a Weekly Rate is authorized or permitted by the Act and is authorized under the Indenture and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. If such opinion is not delivered on the failed Conversion Date, the Bonds will bear interest for a Rate Period of the same type and of substantially the same length as the Rate Period in effect prior to the failed Conversion Date at a rate of interest determined by the Remarketing Agent on the failed Conversion Date (or if shorter, the Rate Period ending on the day before the maturity date, with respect to the 2006 Series B Bonds); provided that if the Bonds then bear interest at the Long Term Rate, and if such opinion is not delivered on the date which would have been the effective date of a new Long Term Rate Period, the Bonds will bear interest at the Annual Rate, commencing on such date, at an Annual Rate determined by the Remarketing Agent on such date. If the proposed Conversion of Bonds fails as described herein, any mandatory purchase of such Bonds will remain effective.

#### **Purchases of Bonds on Demand of Owner**

If the Bonds are in the book-entry-only system, demands for purchase may be made by Beneficial Owners only through such Beneficial Owner's Direct Participant (as defined under the caption "— Book-Entry-Only System" below). If the Bonds are in certificated form, demands for purchase may be made only by registered owners. When the Interest Rate Mode is the Dutch Auction Rate, the Bonds are not subject to purchase on demand of the owners thereof.

*Daily Rate.* If the Interest Rate Mode for the Bonds is the Daily Rate, any Bond will be purchased on the demand of the registered owner thereof on any Business Day during a Daily Rate Period at a purchase price equal to the principal amount thereof plus accrued interest, if any, to the Purchase Date upon written notice or telephonic notice (to be immediately confirmed in writing) to the Tender Agent at its principal office not later than 10:00 a.m. (New York City time) on such Business Day.

*Weekly Rate.* If the Interest Rate Mode for the Bonds is the Weekly Rate, any Bond will be purchased on the demand of the registered owner thereof on any Business Day during a Weekly Rate Period at a purchase price equal to the principal amount thereof plus accrued interest, if any, to the Purchase Date upon written notice to the Tender Agent at its principal office at or before 5:00 p.m. (New York City time) on a Business Day not later than the seventh day prior to the Purchase Date.



Semi-Annual Rate. If the Interest Rate Mode for the Bonds is the Semi-Annual Rate, any Bond will be purchased on the demand of the registered owner thereof on any Interest Payment Date for a Semi-Annual Rate Period at a purchase price equal to the principal amount thereof upon written notice to the Tender Agent at its principal office on a Business Day not later than the fifteenth day prior to such Purchase Date.

Annual Rate. If the Interest Rate Mode for the Bonds is the Annual Rate, any Bond will be purchased on the demand of the registered owner thereof on the final Interest Payment Date for such Annual Rate Period at a purchase price equal to the principal amount thereof upon written notice to the Tender Agent at its principal office on a Business Day not later than the fifteenth day prior to such Purchase Date.

Long Term Rate. If the Interest Rate Mode for the Bonds is the Long Term Rate, any Bond will be purchased on the demand of the registered owner thereof on the final Interest Payment Date for such Long Term Rate Period (unless such date is the final maturity date) at a purchase price equal to the principal amount thereof upon written notice to the Tender Agent at its principal office on a Business Day not later than the fifteenth day prior to such Purchase Date.

Limitations on Purchases on Demand of Owner. Notwithstanding the foregoing, there will be no purchase of (a) a portion of any Bond unless the portion to be purchased and the portion to be retained each will be in an authorized denomination or (b) any Bond upon the demand of the registered owner if an Event of Default under the Indenture with respect to the payment of principal of, interest on, or purchase price of, the Bonds has occurred and is continuing. Also, if the Interest Rate Mode for the Bonds is the Flexible Rate, the Bonds will not be subject to purchase on the demand of the registered owners thereof, but each Bond will be subject to mandatory purchase on each Conversion Date and on the Interest Payment Date with respect to such Bond, as described below under the caption “— Mandatory Purchases of Bonds.”

Notice Required for Purchases. Any written notice delivered to the Tender Agent by an owner demanding the purchase of Bonds must (A) be delivered by the time and dates specified above, (B) state the number and principal amount (or portion thereof) of such Bond to be purchased, (C) state the Purchase Date on which such Bond is to be purchased, (D) irrevocably request such purchase and state that the owner agrees to deliver such Bond, duly endorsed in blank for transfer, with all signatures guaranteed, to the Tender Agent at or prior to 11:00 a.m. (1:00 p.m. if a tender during a Daily Rate Period and 12:00 noon if a tender during a Weekly Rate Period) (New York City time) on such Purchase Date.

### **Mandatory Purchases of Bonds**

Mandatory Purchase on Conversion Dates or Change by the Company in Long Term Rate Period. The Bonds will be subject to mandatory purchase at a purchase price equal to the principal amount thereof, plus accrued interest, if any, to the Purchase Date, plus, if the Interest Rate Mode is the Long Term Rate, the redemption premium, if any, which would be payable as described under “— Redemptions — Optional Redemption” below, if the Bonds were redeemed (A) on the Purchase Date, (B) on each Conversion Date and (C) on the effective date of any change by the Company of the Long Term Rate Period. Such tender and purchase will be

required even if the change in Long Term Rate Period or the Conversion is canceled pursuant to the Indenture.

Mandatory Purchase on Each Interest Payment Date for Flexible Rate Period.

Whenever the Interest Rate Mode for the Bonds is the Flexible Rate, each Bond will be subject to mandatory purchase at a purchase price equal to the principal amount thereof, without premium, plus accrued interest, if any, to the Purchase Date, on each Interest Payment Date that interest on such Bond is payable at an interest rate determined for the Flexible Rate. Owners of Bonds will receive no notice of such mandatory purchase.

Mandatory Purchase on Day after End of the Semi-Annual Rate Period, the Annual Rate Period or the Long Term Rate Period. Whenever the Interest Rate Mode for the Bonds is the Semi-Annual Rate, the Annual Rate or the Long Term Rate, such Bonds will be subject to mandatory purchase on the Business Day following the end of each Semi-Annual Rate Period, Annual Rate Period or Long Term Rate Period, as the case may be, for such Bond at a purchase price equal to the principal amount thereof plus accrued interest, if any, to such date.

Mandatory Purchase upon Delivery, Cancellation, Substitution, Termination or Expiration of Any Credit Facility or Replacement with an Alternate Credit Facility. The Bonds will be subject to mandatory tender for purchase at a purchase price equal to 100% of the principal amount thereof, plus accrued interest, if any, (A) on the Interest Payment Date at least five days prior to the date of the cancellation of or the expiration of the term of the then current Credit Facility and (B) on the Interest Payment Date on which a Credit Facility is replaced with an Alternate Credit Facility.

Notice to Owners of Mandatory Purchases. Notice to owners of a mandatory purchase of Bonds (except for mandatory purchase on each Interest Payment Date for Flexible Rate Periods) will be given by the Bond Registrar, by first class mail at least 15 days but not more than 45 days before the Purchase Date; provided, however, as an alternative to the foregoing, if DTC or its nominee is the registered owner of the Bonds, notice may be given to DTC not less than five days before the Purchase Date. The notice of mandatory purchase will state those matters required to be set forth therein under the Indenture. No notice of mandatory purchase will be given in connection with a mandatory purchase on an Interest Payment Date for a Flexible Rate Period.

### **Remarketing and Purchase of Bonds**

The Indenture provides that, subject to the terms of a Remarketing Agreement with the Company, the Remarketing Agent will use its reasonable best efforts to offer for sale Bonds purchased upon demand of the owners thereof and, unless otherwise instructed by the Company and with the consent of any Credit Facility Issuer, upon mandatory purchase, provided that Bonds will not be remarketed upon the occurrence and continuance of certain Events of Default under the Indenture, except in the sole discretion of the Remarketing Agent. Each such sale will be at a price equal to the principal amount thereof, plus interest accrued to the date of sale. The Remarketing Agent, the Trustee, the Paying Agent, the Bond Registrar or the Tender Agent each may purchase any Bonds offered for sale for its own account.

On each date Bonds are to be purchased pursuant to optional or mandatory purchase under the Indenture, such Bonds will be purchased from the following sources in the order of priority indicated, provided that funds derived from clause (c) may not be combined with the funds derived from clauses (a) or (b) to purchase any Bonds:

(a) proceeds of the remarketing of such Bonds to persons other than the Company, its affiliates or the Issuer and furnished to the Tender Agent by the Remarketing Agent and deposited directly into, and held in, the Remarketing Proceeds Subaccount of the Purchase Fund established with the Tender Agent under the Indenture;

(b) proceeds of the Credit Facility, if any, furnished by the Trustee, as Tender Agent, and deposited by the Tender Agent directly into, and held in, the Credit Facility Subaccount of the Purchase Fund; and

(c) moneys paid by the Company (including the proceeds of the remarketing of the Bonds to the Company, its affiliates or the Issuer) to pay the purchase price to the Tender Agent.

If there is no Credit Facility in operation to secure the Bonds, any Bonds will be purchased with any moneys made available by the Company, including proceeds from the remarketing of the Bonds.

### **Payment of Purchase Price**

When a book-entry-only system is not in effect, payment of the purchase price of any Bond will be payable (and delivery of a replacement Bond in exchange for the portion of any Bond not purchased if such Bond is purchased in part will be made) on the Purchase Date upon delivery of such Bond to the Tender Agent on such Purchase Date; provided that such Bond must be delivered to the Tender Agent: (i) at or prior to 12:00 noon (New York City time), in the case of Bonds delivered for purchase during a Weekly Rate Period or Flexible Rate Period, (ii) at or prior to 1:00 p.m. (New York City time), in the case of Bonds delivered for purchase during a Daily Rate Period or (iii) at or prior to 11:00 a.m. (New York City time), in the case of Bonds delivered for purchase during a Semi-Annual Rate Period, Annual Rate Period or Long Term Rate Period. If the date of such purchase is not a Business Day, the purchase price will be payable on the next succeeding Business Day.

Any Bond delivered for payment of the purchase price must be accompanied by an instrument of transfer thereof in form satisfactory to the Tender Agent executed in blank by the registered owner thereof and with all signatures guaranteed. The Tender Agent may refuse to accept delivery of any Bond for which an instrument of transfer satisfactory to it has not been provided and has no obligation to pay the purchase price of such Bond until a satisfactory instrument is delivered.

If the registered owner of any Bond (or portion thereof) that is subject to purchase pursuant to the Indenture fails to deliver such Bond with an appropriate instrument of transfer to the Tender Agent for purchase on the Purchase Date, and if the Tender Agent is in receipt of the purchase price therefor, such Bond (or portion thereof) nevertheless will be deemed purchased on the Purchase Date thereof. Any owner who so fails to deliver such Bond for purchase on (or

before) the Purchase Date will have no further rights thereunder, except the right to receive the purchase price thereof from those moneys deposited with the Tender Agent in the Purchase Fund pursuant to the Indenture upon presentation and surrender of such Bond to the Tender Agent properly endorsed for transfer in blank with all signatures guaranteed.

When a book-entry-only system is in effect, the requirement for physical delivery of the Bonds will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on the records of DTC to the participant account of the Tender Agent.

## Redemptions

### Optional Redemption.

(i) Whenever the Interest Rate Mode for the Bonds is the Daily Rate or the Weekly Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof, plus interest accrued, if any, to the redemption date, on any Business Day.

(ii) Whenever the Interest Rate Mode for a Bond is the Flexible Rate, such Bond will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof, plus accrued interest, if any, to the redemption date with respect to the 2008 Series A Bonds, on any Interest Payment Date for that Bond.

(iii) Whenever the Interest Rate Mode for the Bonds is the Semi-Annual Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof on any Interest Payment Date for each Semi-Annual Rate Period.

(iv) Whenever the Interest Rate Mode for the Bonds is the Annual Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof on the final Interest Payment Date for each Annual Rate Period.

(v) With respect to the 2006 Series B Bonds, whenever the Interest Rate Mode for the Bonds is the Dutch Auction Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, on the Business Day immediately succeeding any auction date at a redemption price of 100% of the principal amount thereof, together with accrued interest to the redemption date.

(vi) Whenever the Interest Rate Mode for the Bonds is the Long Term Rate, the Bonds will be subject to redemption at the option of the Issuer, upon the written direction of the Company, in whole or in part, (A) on the final Interest Payment Date for the then current Long Term Rate Period at a redemption price of 100% of the principal amount thereof and (B) prior to the end of the then current Long Term Rate Period at any

time during the redemption periods and at the redemption prices set forth below, plus in each case interest accrued, if any, to the redemption date:

<b>Original Length of Current Long Term Rate Period (Years)</b>	<b>Commencement of Redemption Period</b>	<b>Redemption Price as Percentage of Principal</b>
<i>2006 Series B Bonds:</i>		
More than or equal to 11 years	First Interest Payment Date on or after the tenth anniversary of commencement of Long Term Rate Period	100%
Less than 11 years	Non-callable	Non-callable
<i>2008 Series A Bonds:</i>		
More than or equal to 10 years	First Interest Payment Date on or after the tenth anniversary of commencement of Long Term Rate Period	100%
Less than 10 years	Non-callable	Non-callable

Subject to certain conditions, including provision of an opinion of Bond Counsel that a change in the redemption provisions of the Bonds will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes, the redemption periods and redemption prices may be revised, effective as of the Conversion Date, the date of a change in the Long Term Rate Period or a Purchase Date on the final Interest Payment Date during a Long Term Rate Period, to reflect Prevailing Market Conditions on such date as determined by the Remarketing Agent in its judgment. Any such revision of the redemption periods and redemption prices will not be considered an amendment or a supplement to the Indenture and will not require the consent of any Bondholder or any other person or entity.

*Extraordinary Optional Redemption in Whole.* The Bonds may be redeemed by the Issuer in whole at any time at 100% of the principal amount thereof plus accrued interest to the redemption date upon the exercise by the Company of an option under the Loan Agreement to prepay the loan if any of the following events occurs within 180 days preceding the giving of written notice by the Company to the Trustee of such election:

- (i) if in the judgment of the Company, unreasonable burdens or excessive liabilities have been imposed upon the Company after the issuance of the Bonds with respect to the Project or the operation thereof, including without limitation federal, state or other ad valorem property, income or other taxes not imposed on the date of the Loan

Agreement, other than ad valorem taxes levied upon privately owned property used for the same general purpose as the Project;

(ii) if the Project or a portion thereof or other property of the Company in connection with which the Project is used has been damaged or destroyed to such an extent so as, in the judgment of the Company, to render the Project or such other property of the Company in connection with which the Project is used unsatisfactory to the Company for its intended use, and such condition continues for a period of six months;

(iii) there has occurred condemnation of all or substantially all of the Project or the taking by eminent domain of such use or control of the Project or other property of the Company in connection with which the Project is used so as, in the judgment of the Company, to render the Project or such other property of the Company unsatisfactory to the Company for its intended use;

(iv) in the event changes, which the Company cannot reasonably control, in the economic availability of materials, supplies, labor, equipment or other properties or things necessary for the efficient operation of the generating station where the Project is located have occurred, which, in the judgment of the Company, render the continued operation of such generating station or any generating unit at such station uneconomical; or changes in circumstances after the issuance of the Bonds, including but not limited to changes in solid waste abatement, control and disposal requirements, have occurred such that the Company determines that use of the Project is no longer required or desirable;

(v) the Loan Agreement has become void or unenforceable or impossible of performance by reason of any changes in the Constitution of the Commonwealth of Kentucky or the Constitution of the United States of America or by reason of legislative or administrative action (whether state or federal) or any final decree, judgment or order of any court or administrative body, whether state or federal; or

(vi) a final order or decree of any court or administrative body after the issuance of the Bonds requires the Company to cease a substantial part of its operation at the generating station where the Project is located to such extent that the Company will be prevented from carrying on its normal operations at such generating station for a period of six months.

Extraordinary Optional Redemption in Whole or in Part. The Bonds are also subject to redemption in whole or in part at 100% of the principal amount thereof plus accrued interest to the redemption date at the option of the Company in an amount not to exceed the net proceeds received from insurance or any condemnation award received by the Issuer or the Company in the event of damage, destruction or condemnation of all or a portion of the Project, subject to receipt of an opinion of Bond Counsel that such redemption will not adversely affect the exclusion of interest on any of the Bonds from gross income for federal income tax purposes, and such net proceeds must be applied to reimburse the Credit Facility Issuer for drawings under the Credit Facility to redeem the Bonds. See “Summary of the Loan Agreement — Maintenance; Damage, Destruction and Condemnation.” Such redemption may occur at any time, provided that if such event occurs while the Interest Rate Mode for the Bonds is the

Flexible Rate or Semi-Annual Rate, such redemption must occur on a date on which the Bonds are otherwise subject to optional redemption as described above.

*Mandatory Redemption; Determination of Taxability.* The Bonds are required to be redeemed by the Issuer, in whole, or in such part as described below, at a redemption price equal to 100% of the principal amount thereof, without redemption premium, plus accrued interest, if any, to the redemption date, within 180 days following a “Determination of Taxability.” As used herein, a “Determination of Taxability” means the receipt by the Trustee of written notice from a current or former registered owner of a Bond or from the Company or the Issuer of (i) the issuance of a published or private ruling or a technical advice memorandum by the Internal Revenue Service in which the Company participated or has been given the opportunity to participate, and which ruling or memorandum the Company, in its discretion, does not contest or from which no further right of administrative or judicial review or appeal exists, or (ii) a final determination from which no further right of appeal exists of any court of competent jurisdiction in the United States in a proceeding in which the Company has participated or has been a party, or has been given the opportunity to participate or be a party, in each case, to the effect that as a result of a failure by the Company to perform or observe any covenant or agreement or the inaccuracy of any representation contained in the Loan Agreement or any other agreement or certificate delivered in connection with the Bonds, the interest on the Bonds is included in the gross income of the owners thereof for federal income tax purposes, other than with respect to a person who is a “substantial user” or a “related person” of a substantial user of the Project within the meaning of the Section 147 of Internal Revenue Code of 1986, as amended (the “Code”); provided, however, that no such Determination of Taxability shall be considered to exist as a result of the Trustee receiving notice from a current or former registered owner of a Bond or from the Issuer unless (i) the Issuer or the registered owner or former registered owner of the Bond involved in such proceeding or action (A) gives the Company and the Trustee prompt notice of the commencement thereof, and (B) (if the Company agrees to pay all expenses in connection therewith) offers the Company the opportunity to control unconditionally the defense thereof, and (ii) either (A) the Company does not agree within 30 days of receipt of such offer to pay such expenses and liabilities and to control such defense, or (B) the Company shall exhaust or choose not to exhaust all available proceedings for the contest, review, appeal or rehearing of such decree, judgment or action which the Company determines to be appropriate. No Determination of Taxability described above will result from the inclusion of interest on any Bond in the computation of minimum or indirect taxes. All of the Bonds are required to be redeemed upon a Determination of Taxability as described above unless, in the opinion of Bond Counsel, redemption of a portion of such Bonds would have the result that interest payable on the remaining Bonds outstanding after the redemption would not be so included in any such gross income.

In the event any of the Issuer, the Company or the Trustee has been put on notice or becomes aware of the existence or pendency of any inquiry, audit or other proceedings relating to the Bonds being conducted by the Internal Revenue Service, the party so put on notice is required to give immediate written notice to the other parties of such matters. Promptly upon learning of the occurrence of a Determination of Taxability (whether or not the same is being contested), or any of the events described above, the Company is required to give notice thereof to the Trustee and the Issuer.



If the Internal Revenue Service or a court of competent jurisdiction determines that the interest paid or to be paid on any Bond (except to a “substantial user” of the Project or a “related person” within the meaning of Section 147(a) of the Code) is or was includable in the gross income of the recipient for federal income tax purposes for reasons other than as a result of a failure by the Company to perform or observe any of its covenants, agreements or representations in the Loan Agreement or any other agreement or certificate delivered in connection therewith, the Bonds are not subject to redemption. In such circumstances, Bondholders would continue to hold their Bonds, receiving principal and interest at the applicable rate as and when due, but would be required to include such interest payments in gross income for federal income tax purposes. Also, if the lien of the Indenture is discharged or defeased prior to the occurrence of a final Determination of Taxability, Bonds will not be redeemed as described herein.

*General Redemption Terms.* So long as a Credit Facility is in effect in respect of the Bonds, the redemption price (including accrued interest) will be paid from drawings under such Credit Facility or from moneys which otherwise constitute Available Moneys under the Indenture. Notice of redemption will be given by mailing a redemption notice conforming to the provisions and requirements of the Indenture by first class mail to the registered owners of the Bonds to be redeemed not less than 30 days (15 days if the Interest Rate Mode for the Bonds is the Flexible Rate, Daily Rate, Weekly Rate or, with respect to the 2006 Series B Bonds, the Dutch Auction Rate) but not more than 45 days prior to the redemption date.

Any notice mailed as provided in the Indenture will be conclusively presumed to have been given, irrespective of whether the owner receives the notice. Failure to give any such notice by mailing or any defect therein in respect of any Bond will not affect the validity of any proceedings for the redemption of any other Bond. No further interest will accrue on the principal of any Bond called for redemption after the redemption date if funds sufficient for such redemption have been deposited with the Paying Agent as of the redemption date. If the provisions for discharging the Indenture set forth below under the caption, “Summary of the Indenture — Discharge of Indenture” have not been complied with, any redemption notice will state that it is conditional on there being sufficient moneys to pay the full redemption price for the Bonds to be redeemed. So long as the Bonds are held in book-entry-only form, all redemption notices will be sent only to Cede & Co.

### **Book-Entry-Only System**

*Portions of the following information concerning DTC and DTC’s book entry only system have been obtained from DTC. The Issuer, the Company and the Remarketing Agent make no representation as to the accuracy of such information.*

Initially, DTC will act as securities depository for the Bonds and the Bonds initially will be issued solely in book-entry-only form to be held under DTC’s book-entry-only system, registered in the name of Cede & Co. (DTC’s partnership nominee). One fully registered bond in the aggregate principal amount of the Bonds will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York

Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934 (the “Exchange Act”). DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants” and, together with “Direct Participants,” “Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the SEC. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct or Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Issuer or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, the Company or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Tender Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of Bonds in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Tender Agent's DTC account.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Issuer, the Company, the Tender Agent and the Trustee, or the Issuer, at the request of the Company, may remove DTC as the securities depository for the Bonds. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be delivered as described in the Indenture (see "— Revision of Book Entry Only System; Replacement Bonds" below). The Beneficial Owner, upon registration of certificates held in the Beneficial Owner's name, will become the registered owner of the Bonds.

So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the registered owners of the Bonds will mean Cede & Co. and will not mean the Beneficial Owners. Under the Indenture, payments made by the Trustee to DTC or its nominee will satisfy the Issuer's obligations under the Indenture, the Company's obligations under the Loan Agreement, to the extent of the payments so made. Beneficial Owners will not be, and will not be considered by the Issuer or the Trustee to be, and will not have any rights as, owners of Bonds under the Indenture.

The Trustee and the Issuer, so long as a book entry only system is used for the Bonds, will send any notice of redemption or of proposed document amendments requiring consent of registered owners and any other notices required by the document (including notices of Conversion and mandatory purchase) to be sent to registered owners only to DTC (or any successor securities depository) or its nominee. Any failure of DTC to advise any Direct Participant, or of any Direct Participant or Indirect Participant to notify the Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Bonds called for redemption, the document amendment, the Conversion, the mandatory purchase or any other action premised on that notice.

The Issuer, the Company, the Trustee and the Remarketing Agent cannot and do not give any assurances that DTC will distribute payments on the Bonds made to DTC or its nominee as the registered owner or any redemption or other notices, to the Participants, or that the Participants or others will distribute such payments or notices to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will serve and act in the manner described in this Reoffering Circular.

THE ISSUER, THE COMPANY, THE REMARKETING AGENT AND THE TRUSTEE WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE TRUSTEE AS BEING A REGISTERED OWNER WITH RESPECT TO: (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (2) THE PAYMENT OF ANY AMOUNT DUE BY DTC TO ANY DIRECT PARTICIPANT OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OR REDEMPTION OR PURCHASE PRICE OF OR INTEREST ON THE BONDS; (3) THE DELIVERY OF ANY NOTICE BY DTC TO ANY DIRECT PARTICIPANT OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED TO BE GIVEN TO REGISTERED OWNERS UNDER THE TERMS OF THE INDENTURE; (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS REGISTERED OWNER.

Revision of Book-Entry-Only System; Replacement Bonds. In the event that DTC determines not to continue as securities depository or is removed by the Issuer, at the direction of the Company, as securities depository, the Issuer, at the direction of the Company, may appoint a successor securities depository reasonably acceptable to the Trustee. If the Issuer does not or is

unable to appoint a successor securities depository, the Issuer will issue and the Trustee will authenticate and deliver fully registered Bonds, in authorized denominations, to the assignees of DTC or their nominees.

In the event that the book-entry-only system is discontinued, the following provisions will apply. The Bonds may be issued in denominations of \$5,000 and multiples thereof, if the Interest Rate Mode is the Semi-Annual Rate, the Annual Rate or the Long Term Rate; in denominations of \$100,000 and multiples of \$5,000 in excess thereof, if the Interest Rate Mode is the Flexible Rate; in denominations of \$100,000 and multiples thereof, if the Interest Rate Mode is the Daily Rate or the Weekly Rate; and with respect to 2006 Series B Bonds, in denominations of \$25,000 and multiples thereof; provided, that, (i) if the Bonds bear interest at the Daily Rate or the Weekly Rate, one Bond may be in the denomination of, or include an additional, \$47,405 and (ii) if the Bonds bear interest at the Semi-Annual Rate, the Annual Rate, the Long Term Rate or the Flexible Rate, one Bond may be in the denomination of, or include an additional \$2,405. Bonds may be transferred or exchanged for an equal total amount of Bonds of other authorized denominations upon surrender of such Bonds at the principal office of the Bond Registrar, accompanied by a written instrument of transfer or authorization for exchange in form and with guaranty of signature satisfactory to the Bond Registrar, duly executed by the registered owner or the owner's duly authorized attorney. Except as provided in the Indenture, the Bond Registrar will not be required to register the transfer or exchange of any Bond during the fifteen days before any mailing of a notice of redemption, after such Bond has been called for redemption in whole or in part, or after such Bond has been tendered or deemed tendered for optional or mandatory purchase as described under "Purchases of Bonds on Demand of Owner" and "Mandatory Purchases of Bonds." Registration of transfers and exchanges will be made without charge to the owners of Bonds, except that the Bond Registrar may require any owner requesting registration of transfer or exchange to pay any required tax or governmental charge.

### Security

Payment of the principal of and interest and any premium on the Bonds is secured by an assignment by the Issuer to the Trustee of the Issuer's interest in and to the Loan Agreement and all payments to be made pursuant thereto (other than certain indemnification and expense payments). Pursuant to the Loan Agreement, the Company has agreed to pay, among other things, amounts sufficient to pay the aggregate principal amount of and premium, if any, on the Bonds, together with interest thereon as and when the same become due. The Company further will agree to make payments of the purchase price of the Bonds tendered for purchase to the extent that funds are not otherwise available therefor under the provisions of the Indenture.

The payment of the principal of and interest and any premium on the Bonds is further secured by a separate tranche of the Company's First Mortgage Bonds, Collateral Series 2010 (the "First Mortgage Bonds") issued under an Indenture, dated as of October 1, 2010, as supplemented (the "First Mortgage Indenture"), between the Company and The Bank of New York Mellon, as trustee (the "First Mortgage Trustee"). The principal amount of the First Mortgage Bonds equals the principal amount of the Bonds. If the Bonds become immediately due and payable as a result of a default in payment of the principal of, premium, if any, or interest on the Bonds, or a default in payment of the purchase price of such Bonds, due to an event of default under the Loan Agreement and upon receipt by the First Mortgage Trustee of a

written demand from the Trustee for redemption of the First Mortgage Bonds, or if all first mortgage bonds outstanding under the First Mortgage Indenture shall have been immediately due and payable, such First Mortgage Bonds will bear interest at the same interest rate or rates borne by the Bonds and the principal of such First Mortgage Bonds, together with interest accrued thereon from the last date or dates to which interest on the Bonds has been paid in full, will be payable in accordance with the Supplemental Indenture. See "Summary of the First Mortgage Bonds."

The First Mortgage Bonds are not intended to provide a direct source of liquidity to pay the purchase price of Bonds tendered for purchase in accordance with the Indenture. The First Mortgage Bonds are secured by a lien on certain property owned by the Company. In certain circumstances, the Company is permitted to reduce the aggregate principal amount of its First Mortgage Bonds held by the Trustee, but in no event to an amount lower than the aggregate outstanding principal amount of the Bonds.

### **The Letter of Credit**

*The following summarizes certain provisions of the Letter of Credit and the Reimbursement Agreement, to which reference is made for the detailed provisions thereof. Unless otherwise defined in this Reoffering Circular, capitalized terms in the following summary are used as defined in the Letter of Credit and the Reimbursement Agreement. The Company is permitted under the Indenture to deliver an Alternate Credit Facility to replace the Letter of Credit. Any such Alternate Credit Facility must meet certain requirements described in the Indenture.*

### **The Letter of Credit**

The Letter of Credit is an irrevocable transferable direct pay letter of credit issued by the Bank in order to provide additional security for the payment of principal of, purchase price of, interest on and premium, if applicable, on any date when payments under the Bonds are due, including principal and interest payments and payments upon tender, redemption, acceleration or maturity of the Bonds. The Letter of Credit provides for direct payments to or upon the order of the Trustee as set forth in the Letter of Credit in amounts sufficient to pay such amounts in accordance with the terms thereof.

The Letter of Credit has been issued in an amount equal to the aggregate principal amount of the outstanding Bonds, plus an amount that represents interest accrued thereon at an assumed maximum rate of 15% per annum for 45 days (the "Credit Amount"). The Trustee, upon compliance with the terms of the Letter of Credit, is authorized to draw up to (a) an amount sufficient (i) to pay principal of the Bonds, when due, whether at maturity or upon redemption or acceleration, and (ii) to pay the portion of the purchase price of the Bonds delivered for purchase pursuant to a demand for purchase by the owner thereof or a mandatory tender for purchase and not remarketed (a "Liquidity Drawing") equal to the principal amount of the Bonds, plus (b) an amount not to exceed 45 days of accrued interest on the Bonds at an assumed rate of 15% per annum (i) to pay interest on the Bonds, when due, and (ii) to pay the portion of the interest accrued on the Bonds as of any Liquidity Drawing.

The amount available under the Letter of Credit will be automatically reduced by the amount of any drawing thereunder, subject to reinstatement as described below. With respect to a drawing by the Trustee solely to pay interest on the Bonds on an Interest Payment Date, the amount available under the Letter of Credit will be automatically reinstated in the amount of such drawing effective on the earlier of (i) receipt by the Bank from the Company of reimbursement of any drawing solely to pay interest in full or (ii) at the opening of business on the eleventh calendar day after the date the Bank honors such drawing, unless the Trustee has received written notice from the Bank by the tenth calendar day after the date the Bank honors such drawing that the Bank is not so reinstating the available amount due to the Company's failure to reimburse the Bank for such drawing in full, or that an event of default has occurred and is continuing under the \$198,309,583.05 Amended and Restated Letter of Credit Agreement dated as of August 16, 2012 as amended pursuant to Amendment No. 1 dated as of May 1, 2013 and Amendment No. 2 dated as of May 1, 2013 among the Company, the lenders from time to time thereto, and Sumitomo Mitsui Banking Corporation, New York Branch, (successor to Banco Bilboa Vizcaya Argentaria, S.A., New York Branch), as Administrative Agent (the "Credit Agreement") and Sumitomo Mitsui Banking Corporation, New York Branch, as Issuing Lender, and, in either case, directing an acceleration of the Bonds pursuant to the Indenture. With respect to a Liquidity Drawing under the Letter of Credit, the amount available under the Letter of Credit will be automatically reduced by the principal amount of the Bonds purchased with the proceeds of such drawing plus the amount of accrued interest on such Bonds. In the event of the remarketing of the Bonds purchased with the proceeds of a Liquidity Drawing, the amount available under the Letter of Credit will be automatically reinstated upon receipt by the Bank or the Trustee on the Bank's behalf of an amount equal to such principal amount plus accrued interest.

The Letter of Credit will terminate on the earliest to occur of:

(i) the Bank's close of business on April 22, 2016 (such date, as extended from time to time in accordance with the Letter of Credit is defined as the "Stated Expiration Date");

(ii) the Bank's close of business on the date which is five Business Days following the date of receipt by the Bank of a certificate from the Trustee certifying that (a) no Bonds remain Outstanding within the meaning of the Indenture, (b) all drawings required to be made under the Indenture and available under the Letter of Credit have been made and honored, (c) an Alternate Credit Facility has been delivered to the Trustee in accordance with the Indenture to replace the Letter of Credit or (d) all of the outstanding Bonds were converted to Bonds bearing interest at a rate other than the Daily Rate or the Weekly Rate;

(iii) the Bank's close of business on the date of receipt by the Bank of a certificate from the Trustee confirming that the Trustee is required to terminate the Letter of Credit in accordance with the terms of the Indenture;

(iv) the date on which the Bank receives and honors an acceleration drawing certificate; or



(v) the Bank's close of business on the date which is 30 days after receipt by the Trustee of written notice from the Bank of an Event of Default under the Credit Agreement and instructing the Trustee to draw under the Letter of Credit.

Pursuant to the Credit Agreement, the Company is obligated to reimburse the Bank for all amounts drawn under the Letter of Credit, and to pay interest on all such amounts. The Company has also agreed to pay the Bank and the Administrative Agent fees for issuing and maintaining the Letter of Credit.

### **The Reimbursement Agreement**

The Reimbursement Agreement, through incorporation of the terms of the Credit Agreement, imposes various covenants and agreements, including various financial and operating covenants, on the Company. Such covenants include, but are not limited to, covenants relating to (i) inspection of the books and financial records of the Company; (ii) mergers or consolidations; (iii) disposition of assets and (iv) capitalization ratios. Any such covenants may be amended, waived or modified at any time by the Bank and without the consent of the Trustee or the holders of the Bonds. Under certain circumstances, the failure of the Company to comply with such covenants may result in a mandatory tender or acceleration of the Bonds.

An Event of Default under the Credit Agreement constitutes an Event of Default under the Reimbursement Agreement. The following events constitute an Event of Default under the Credit Agreement:

(i) the Company shall fail to pay when due any principal on any Reimbursement Obligations; or

(ii) the Company shall fail to pay when due any interest on the Reimbursement Obligations, any fee or any other amount payable under the Credit Agreement or under any other Loan Document for five (5) days following the date such payment becomes due thereunder; or

(iii) the Company shall fail to observe or perform certain covenants or agreements contained in the Credit Agreement, including those related to mergers, disposition of assets and capitalization ratios; or

(iv) the Company shall fail to give notice of a Default or Event of Default under the Credit Agreement within a specified number of days following knowledge of such occurrence; or

(v) the Company shall fail to observe or perform any covenant or agreement contained in the Credit Agreement or any other Loan Document (other than those covered above) for thirty (30) days after written notice thereof has been given to the defaulting party by the administrative agent, or at the request of the required lenders; or

(vi) any representation, warranty or certification made by the Company in the Credit Agreement or any other Loan Document or in any certificate, financial statement or other document delivered pursuant hereto or thereto shall prove to have been incorrect in any material respect when made or deemed made; or

(vii) the Company shall (i) fail to pay any principal or interest, regardless of amount, due in respect of any Material Debt beyond any period of grace provided with respect thereto, or (ii) fail to observe or perform any other term, covenant, condition or agreement contained in any agreement or instrument evidencing or governing any such Material Debt beyond any period of grace provided with respect thereto if the effect of any failure referred to in this clause (ii) is to cause, or to permit the holder or holders of such Material Debt or a trustee on its or their behalf to cause, such Material Debt to become due prior to its stated maturity; or

(viii) the Company shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay, or shall admit in writing its inability to pay, its debts as they become due, or shall take any corporate action to authorize any of the foregoing; or

(ix) an involuntary case or other proceeding shall be commenced against the Company seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 days; or an order for relief shall be entered against the Company under the Bankruptcy Code; or

(x) any member of the ERISA Group shall fail to pay when due an amount or amounts aggregating in excess of \$50,000,000 which it shall have become liable to pay under Title IV of ERISA; or notice of intent to terminate a Material Plan shall be filed under Title IV of ERISA by any member of the ERISA Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate, to impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or to cause a trustee to be appointed to administer any Material Plan; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Material Plan must be terminated; or there shall occur a complete or partial withdrawal from, or default, within the meaning of Section 4219(c)(5) of ERISA, with respect to, one or more Multiemployer Plans which could reasonably be expected to cause one or more members of the ERISA Group to incur a current payment obligation in excess of \$50,000,000; or

(xi) the Company shall fail within sixty (60) days to pay, bond or otherwise discharge any judgment or order for the payment of money in excess of \$20,000,000, entered

against the Company that is not stayed on appeal or otherwise being appropriately contested in good faith; or

(xii) a Change of Control shall have occurred;

For purposes of the foregoing:

“Change of Control” means (i) the acquisition by any person, or two or more persons acting in concert, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended) of 25% or more of the outstanding shares of voting stock of PPL Corporation or its successors or (ii) the failure at any time of PPL Corporation or its successors to own 80% or more of the outstanding shares of the voting stock in the Company.

“Material Debt” means debt (other than debt under the Loan Documents) of the Company in a principal or face amount exceeding \$50,000,000.

### **Summary of the Loan Agreement**

*The following, in addition to the provisions contained elsewhere in this Reoffering Circular, is a brief description of certain provisions of the Loan Agreement. This description is only a summary and does not purport to be complete and definitive. Reference is made to the Loan Agreement for the detailed provisions thereof.*

#### **General**

The Loan Agreement initially commenced as of its initial date, and, with respect to the 2006 Series A Bonds, is amended and restated as of September 1, 2008, and, with respect to each Loan Agreement, is further amended and supplemented pursuant to the Amendment No. 1 dated as of September 1, 2010, and will end on the earliest to occur of October 1, 2034, with respect to the 2006 Series B Bonds, or February 1, 2032, with respect to the 2008 Series A Bonds, or the date on which all of the Bonds have been fully paid or provision has been made for such payment pursuant to the Indenture. See “Summary of the Indenture — Discharge of Indenture.”

The Company has agreed to repay the loan pursuant to the Loan Agreement by making timely payments to the Trustee in sufficient amounts to pay the principal of, premium, if any, and interest required to be paid on the Bonds on each date upon which any such payments are due. The Company has also agreed to pay (a) the agreed upon fees and expenses of the Trustee, the Bond Registrar, the Tender Agent and the Paying Agent and all other amounts which may be payable to the Trustee, the Bond Registrar, the Paying Agent, the Auction Agent with respect to the 2006 Series B Bonds, and the Tender Agent, as may be applicable, under the Indenture, (b) the expenses in connection with any redemption of the Bonds and (c) the reasonable expenses of the Issuer.

The Company covenants and agrees with the Issuer that it will cause the purchase of tendered Bonds that are not remarketed in accordance with the Indenture and, to that end, the Company will cause funds to be made available to the Tender Agent at the times and in the manner required to effect such purchases in accordance with the Indenture; provided, however,

that the obligation of the Company to make any such payment will be reduced by the amount of (A) moneys paid by the Remarketing Agent as proceeds of the remarketing of such Bonds; (B) moneys drawn under a Credit Facility, if any, for the purpose of paying such purchase price and (C) other moneys made available by the Company (see "Summary of the Bonds — Remarketing and Purchase of Bonds").

All payments to be made by the Company to the Issuer pursuant to the Loan Agreement (except the fees and reasonable out-of-pocket expenses of the Issuer, the Trustee, the Paying Agent, the Bond Registrar, the Auction Agent with respect to the 2006 Series B Bonds and the Tender Agent, and amounts related to indemnification) have been assigned by the Issuer to the Trustee, and the Company will pay such amounts directly to the Trustee. The obligations of the Company to make the payments pursuant to the Loan Agreement are absolute and unconditional.

### **Maintenance of Tax Exemption**

The Company and the Issuer have agreed not to take any action that would result in the interest paid on the Bonds being included in gross income of any Bondholder (other than a holder who is a "substantial user" of the Project or a "related person" within the meaning of Section 147(a) of the Code) for federal income tax purposes or that adversely affects the validity of the Bonds.

### **Issuance and Delivery of First Mortgage Bonds**

For the purpose of providing security for the Bonds, the Company has executed and delivered to the Trustee the First Mortgage Bonds. The principal amount of the First Mortgage Bonds executed and delivered to the Trustee equals the aggregate principal amount of the Bonds. If the Bonds become immediately due and payable as a result of a default in payment of the principal of, premium, if any, or interest on the Bonds, or a default in payment of the purchase price of such Bonds, due to an event of default under the Loan Agreement and upon receipt by the First Mortgage Trustee of a written demand from the Trustee for redemption of the First Mortgage Bonds, or if all first mortgage bonds outstanding under the First Mortgage Indenture shall have been immediately due and payable, such First Mortgage Bonds will bear interest at the same interest rate or rates borne by the Bonds and the principal of such First Mortgage Bonds, together with interest accrued thereon from the last date to which interest on the Bonds shall have been paid in full, will then be payable. See, however, "Summary of the Indenture — Waiver of Events of Default."

Upon payment of the principal of, premium, if any, and interest on any of the Bonds, and the surrender to and cancellation thereof by the Trustee, or upon provision for the payment thereof having been made in accordance with the Indenture, First Mortgage Bonds with corresponding principal amounts equal to the aggregate principal amount of the Bonds so surrendered and canceled or for the payment of which provision has been made, will be surrendered by the Trustee to the First Mortgage Trustee and will be canceled by the First Mortgage Trustee. The First Mortgage Bonds will be registered in the name of the Trustee and will be non transferable, except to effect transfers to any successor trustee under the Indenture.

**Payment of Taxes**

The Company has agreed to pay certain taxes and other governmental charges that may be lawfully assessed, levied or charged against or with respect to the Project (see, however, subparagraph (i) under “Summary of the Bonds — Redemptions — Extraordinary Optional Redemption in Whole”). The Company may contest such taxes or other governmental charges unless the security provided by the Indenture would be materially endangered.

**Maintenance; Damage, Destruction and Condemnation**

So long as any Bonds are outstanding, the Company will maintain the Project or cause the Project to be maintained in good working condition and will make or cause to be made all proper repairs, replacements and renewals necessary to continue to constitute the Project as solid waste disposal facilities under Section 142(a)(6) of the Code and the Act. However, the Company will have no obligation to maintain, repair, replace or renew any portion of the Project, the maintenance, repair, replacement or renewal of which becomes uneconomical to the Company because of certain events, including damage or destruction by a cause not within the Company’s control, condemnation of the Project, change in government standards and regulations, economic or other obsolescence or termination of operation of generating facilities to the Project.

The Company, at its own expense, may remodel the Project or make substitutions, modifications and improvements to the Project as it deems desirable, which remodeling, substitutions, modifications and improvements will be deemed, under the terms of the Loan Agreement to be a part of the Project. The Company may not, however, change or alter the basic nature of the Project or cause it to lose its status under Section 142(a)(6) of the Code and the Act.

If, prior to the payment of all Bonds outstanding, the Project or any portion thereof is destroyed, damaged or taken by the exercise of the power of eminent domain and the Issuer or the Company receives net proceeds from insurance or a condemnation award in connection therewith, the Company must (i) cause such net proceeds to be used to repair or restore the Project or (ii) reimburse the Credit Facility Issuer for drawings under the Credit Facility for the redemption of the Bonds in whole or in part at their principal amount, which, by the opinion of Bond Counsel, will not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes. See “Summary of the Bonds — Redemptions — Extraordinary Optional Redemption in Whole or in Part.”

**Insurance**

The Company has agreed to insure the Project in accordance with the provisions of the First Mortgage Indenture.

**Assignment, Merger and Release of Obligations of the Company**

The Company may assign the Loan Agreement, pursuant to an opinion of Bond Counsel that such assignment will not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes, without obtaining the consent of either the Issuer or the Trustee. Such assignment, however, will not relieve the Company from primary liability

for any of its obligations under the Loan Agreement and performance and observance of the other covenants and agreements to be performed by the Company. The Company may dispose of all or substantially all of its assets or consolidate with or merge into another corporation, provided the acquirer of the Company's assets or the corporation with which it will consolidate with or merge into is a corporation or other business organization organized and existing under the laws of the United States of America or one of the states of the United States of America or the District of Columbia, is qualified and admitted to do business in the Commonwealth of Kentucky, assumes in writing all of the obligations and covenants of the Company under the Loan Agreement and delivers a copy of such assumption to the Issuer and Trustee.

### **Release and Indemnification Covenant**

The Company will indemnify and hold the Issuer harmless against any expense or liability incurred, including attorneys' fees, resulting from any loss or damage to property or any injury to or death of any person occurring on or about or resulting from any defect in the Project or from any action commenced in connection with the financing thereof.

### **Events of Default**

Each of the following events constitutes an "event of default" under the Loan Agreement:

- (1) failure by the Company to pay the amounts required for payment of the principal of, including purchase price for tendered Bonds and redemption and acceleration prices, and interest accrued, on the Bonds, at the times specified therein taking into account any periods of grace provided in the Indenture and the Bonds for the applicable payment of interest on the Bonds (see "Summary of the Indenture — Defaults and Remedies");
- (2) failure by the Company to observe and perform any covenant, condition or agreement, other than as referred to in paragraph (1) above, for a period of thirty days after written notice by the Issuer or Trustee, provided, however, that if such failure is capable of being corrected, but cannot be corrected in such 30-day period, it will not constitute an event of default under the Loan Agreement if corrective action with respect thereto is instituted within such period and is being diligently pursued;
- (3) certain events of bankruptcy, dissolution, liquidation, reorganization or insolvency of the Company;
- (4) the occurrence of an event of default under the Indenture; or
- (5) all first mortgage bonds outstanding under the First Mortgage Indenture, if not already due, shall have become immediately due and payable, whether by declaration or otherwise, and such acceleration shall not have been rescinded or annulled by the First Mortgage Trustee.

Under the Loan Agreement, certain of the Company's obligations (other than the Company's obligations, among others, (i) not to permit any action which would result in interest paid on the Bonds being included in gross income for federal and Kentucky income taxes; (ii) to

maintain its corporate existence and good standing, and to neither dispose of all or substantially all of its assets or consolidate with or merge into another corporation unless certain provisions of the Loan Agreement are satisfied; and (iii) to make loan payments and certain other payments under the provisions of the Loan Agreement) may be suspended if by reason of force majeure (as defined in the Loan Agreement) the Company is unable to carry out such obligations.

### **Remedies**

Upon the happening of an event of default under the Loan Agreement, the Trustee, on behalf of the Issuer, may, among other things, take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the Company, under the Loan Agreement, including any remedies available in respect of the First Mortgage Bonds.

In the event of a default in payment of the principal of, premium, if any, or interest on the Bonds and the acceleration of the maturity date of the Bonds (to the extent not already due and payable) as a consequence of such event of default, the Trustee may demand redemption of the First Mortgage Bonds. See "Summary of the First Mortgage Bonds" and "Summary of the Indenture — Defaults and Remedies." Any amounts collected upon the happening of any such event of default will be applied in accordance with the Indenture or, if the Bonds have been fully paid (or provision for payment thereof has been made in accordance with the Indenture) and all other liabilities of the Company accrued under the Indenture and the Loan Agreement have been paid or satisfied, made available to the Company.

### **Options to Prepay, Obligation to Prepay**

The Company may prepay the loan pursuant to the Loan Agreement, in whole or in part, on certain dates, at the prepayment prices as shown under the captions "Summary of the Bonds — Redemptions — Optional Redemption," "— Extraordinary Optional Redemption in Whole" and "— Extraordinary Optional Redemption in Whole or in Part." Upon the occurrence of the event described under the caption "Summary of the Bonds — Redemptions — Mandatory Redemption; Determination of Taxability," the Company will be obligated to prepay the loan in an aggregate amount sufficient to redeem the required principal amount of the Bonds.

In each instance, the loan prepayment price must be a sum sufficient, together with other funds deposited with the Trustee and available for such purpose, to redeem the requisite amount of the Bonds at a price equal to the applicable redemption price plus accrued interest to the redemption date, and to pay all reasonable and necessary fees and expenses of the Trustee, the Paying Agent and, with respect to the 2008 Series A Bonds, the Bond Registrar and the Tender Agent and all other liabilities of the Company under the Loan Agreement accrued to the redemption date.

### **Amendments and Modifications**

No amendment or modification of the Loan Agreement is permissible without the written consent of the Trustee. The Issuer and the Trustee may, however, without the consent of or notice to any Bondholders, enter into any amendment or modification of the Loan Agreement



(i) which may be required by the provisions of the Loan Agreement or the Indenture, (ii) for the purpose of curing any ambiguity or formal defect or omission, (iii) in connection with any modification or change necessary to conform the Loan Agreement with changes and modifications in the Indenture or (iv) in connection with any other change which, in the judgment of the Trustee, does not adversely affect the Trustee or the Bondholders. Except for such amendments, the Loan Agreement may be amended or modified only with the consent of the Bondholders holding a majority in principal amount of the Bonds then outstanding (see “Summary of the Indenture — Supplemental Indentures” for an explanation of the procedures necessary for Bondholder consent); provided, however, that the approval of the Bondholders holding 100% in principal amount of the Bonds then outstanding is necessary to effectuate an amendment or modification with respect to the Loan Agreement of the type described in clauses (i) through (iv) of the first sentence of the second paragraph of “Summary of the Indenture — Supplemental Indentures.” Any amendments, changes or modification of the Loan Agreement that require the consent of the Bondholders must additionally be approved by the Credit Facility Issuer, if the Bonds are at the time secured by a Credit Facility. Additionally, so long as a Credit Facility is in place or while any amounts are outstanding under a Reimbursement Agreement, the Credit Facility Issuer must consent in writing to any amendment, change, or modification to the Agreement.

### **Summary of the First Mortgage Bonds**

*The following, in addition to the provisions contained elsewhere in this Reoffering Circular, is a brief description of certain provisions of the First Mortgage Bonds and the First Mortgage Indenture. This description is only a summary and does not purport to be complete and definitive. Reference is made to the First Mortgage Indenture and to the form of the First Mortgage Bonds for the detailed provisions thereof.*

#### **General**

The First Mortgage Bonds, in a principal amount equal to the principal amount of the Bonds, were issued as a new tranche from a new series of first mortgage bonds under the First Mortgage Indenture (see "Summary of the Loan Agreement — Issuance and Delivery of First Mortgage Bonds"). The statements herein made (being for the most part summaries of certain provisions of the First Mortgage Indenture) are subject to the detailed provisions of the First Mortgage Indenture, which is incorporated herein by this reference. Words or phrases italicized are defined in the First Mortgage Indenture.

The First Mortgage Bonds will mature on the same date and bear interest at the same rate or rates as the Bonds; however, the principal of and interest on the First Mortgage Bonds will not be payable other than upon the occurrence of an event of default under the Loan Agreement. If the Bonds become immediately due and payable as a result of a default in payment of the principal of, premium, if any, or interest on the Bonds, or a default in payment of the purchase price of such Bonds, due to an event of default under the Loan Agreement, and if all first mortgage bonds outstanding under the First Mortgage Indenture shall not have become immediately due and payable following an event of default under the First Mortgage Indenture, the Company will be obligated to redeem the First Mortgage Bonds upon receipt by the First Mortgage Trustee of a Redemption Demand from the Trustee for redemption, at a redemption

price equal to the principal amount thereof plus accrued interest at the rates borne by the Bonds from the last date to which interest on the Bonds has been paid.

The First Mortgage Bonds at all times will be in fully registered form registered in the name of the Trustee, will be non-negotiable, and will be non-transferable except to any successor trustee under the Indenture. Upon payment and cancellation of Bonds by the Trustee or the Paying Agent (other than any Bond or portion thereof that was canceled by the Trustee or the Paying Agent and for which one or more Bonds were delivered and authenticated pursuant to the Indenture), whether at maturity, by redemption or otherwise, or upon provision for the payment of the Bonds having been made in accordance with the Indenture, an equal principal amount of First Mortgage Bonds will be deemed fully paid and the obligations of the Company thereunder will cease.

### **Security; Lien of the First Mortgage Indenture**

*General.* Except as described below under this heading and under “— Issuance of Additional First Mortgage Bonds,” and subject to the exceptions described under “— Satisfaction and Discharge,” all first mortgage bonds issued under the First Mortgage Indenture, including the Bonds, will be secured, equally and ratably, by the lien of the First Mortgage Indenture, which constitutes, subject to permitted liens as described below, a first mortgage lien on substantially all of the Company’s real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity (other than property duly released from the lien of the First Mortgage Indenture in accordance with the provisions thereof and other than excepted property, as described below). Property that is subject to the lien of the First Mortgage Indenture is referred to herein as “Mortgaged Property.”

The Company may obtain the release of property from the lien of the First Mortgage Indenture from time to time, upon the bases provided for such release in the First Mortgage Indenture. See “— Release of Property.”

The Company may enter into supplemental indentures with the First Mortgage Trustee, without the consent of the holders of the first mortgage bonds, in order to subject additional property (including property that would otherwise be excepted from such lien) to the lien of the First Mortgage Indenture. This property would constitute *property additions* and would be available as a basis for the issuance of additional first mortgage bonds. See “— Issuance of Additional First Mortgage Bonds.”

The First Mortgage Indenture provides that after-acquired property (other than *excepted property*) will be subject to the lien of the First Mortgage Indenture. However, in the case of consolidation or merger (whether or not the Company is the surviving company) or transfer of the Mortgaged Property as or substantially as an entirety, the First Mortgage Indenture will not be required to be a lien upon any of the properties either owned or subsequently acquired by the successor company except properties acquired from the Company in or as a result of such transfer, as well as improvements, extensions and additions (as defined in the First Mortgage Indenture) to such properties and renewals, replacements and substitutions of or for any part or parts thereof. See “— Consolidation, Merger and Conveyance of Assets as an Entirety.”

Excepted Property. The lien of the First Mortgage Indenture does not cover, among other things, the following types of property: property located outside of Kentucky and not specifically subjected or required to be subjected to the lien of the First Mortgage Indenture; property not used by the Company in its electric generation, transmission and distribution business; cash and securities not paid, deposited or held under the First Mortgage Indenture; contracts, leases and other agreements of all kinds, contract rights, bills, notes and other instruments, revenues, accounts receivable, claims, demands and judgments; governmental and other licenses, permits, franchises, consents and allowances; intellectual property rights and other general intangibles; vehicles, movable equipment, aircraft and vessels; all goods, stock in trade, wares, merchandise and inventory held for the purpose of sale or lease in the ordinary course of business; materials, supplies, inventory and other personal property consumable in the operation of the Company's business; fuel; tools and equipment; furniture and furnishings; computers and data processing, telecommunications and other facilities used primarily for administrative or clerical purposes or otherwise not used in connection with the operation or maintenance of electric generation, transmission and distribution facilities; coal, ore, gas, oil and other minerals and timber rights; electric energy and capacity, gas, steam, water and other products generated, produced, manufactured, purchased or otherwise acquired; real property and facilities used primarily for the production or gathering of natural gas; property which has been released from the lien of the First Mortgage Indenture; and leasehold interests. Property of the Company not covered by the lien of the First Mortgage Indenture is referred to herein as excepted property. Properties held by any of the Company's subsidiaries, as well as properties leased from others, would not be subject to the lien of the First Mortgage Indenture.

Permitted Liens. The lien of the First Mortgage Indenture is subject to permitted liens described in the First Mortgage Indenture. Such *permitted liens* include liens existing at the execution date of the First Mortgage Indenture, purchase money liens and other liens placed or otherwise existing on property acquired by the Company after the execution date of the First Mortgage Indenture at the time the Company acquires it, tax liens and other governmental charges which are not delinquent or which are being contested in good faith, mechanics', construction and materialmen's liens, certain judgment liens, easements, reservations and rights of others (including governmental entities) in, and defects of title to, the Company's property, certain leases and leasehold interests, liens to secure public obligations, rights of others to take minerals, timber, electric energy or capacity, gas, water, steam or other products produced by the Company or by others on the Company's property, rights and interests of persons other than the Company arising out of agreements relating to the common ownership or joint use of property, and liens on the interests of such persons in such property and liens which have been bonded or for which other security arrangements have been made.

The First Mortgage Indenture also provides that the First Mortgage Trustee will have a lien, prior to the lien on behalf of the holders of the first mortgage bonds, including the First Mortgage Bonds, upon the Mortgaged Property as security for the Company's payment of its reasonable compensation and expenses and for indemnity against certain liabilities. Any such lien would be a *permitted lien* under the First Mortgage Indenture.

## Issuance of Additional First Mortgage Bonds

The maximum principal amount of first mortgage bonds that may be authenticated and delivered under the First Mortgage Indenture is subject to the issuance restrictions described below; provided, however, that the maximum principal amount of first mortgage bonds outstanding at any one time shall not exceed One Quintillion Dollars (\$1,000,000,000,000,000,000), which amount may be changed by supplemental indenture. As of April 30, 2013, first mortgage bonds in an aggregate principal amount of \$1,850,779,405 were outstanding under the First Mortgage Indenture, of which \$350,779,405 were issued to secure the Company's payment obligations with respect to its outstanding pollution control and environmental facilities revenue bonds, including the Bonds.

First mortgage bonds of any series may be issued from time to time on the basis of, and in an aggregate principal amount not exceeding:

- 66 2/3% of the *cost* or *fair value* to the Company (whichever is less) of *property additions* (as described below) which do not constitute *funded property* (generally, *property additions* which have been made the basis of the authentication and delivery of first mortgage bonds, the release of Mortgaged Property or the withdrawal of cash, which have been substituted for retired *funded property* or which have been used for other specified purposes) after certain deductions and additions, primarily including adjustments to offset property retirements;
- the aggregate principal amount of *retired securities* (as described below); or
- an amount of cash deposited with the First Mortgage Trustee.

*Property additions* generally include any property which is owned by the Company and is subject to the lien of the First Mortgage Indenture except (with certain exceptions) goodwill, going concern value rights or intangible property, or any property the acquisition or construction of which is properly chargeable to one of the Company's operating expense accounts.

*Retired securities* means, generally, first mortgage bonds which are no longer outstanding under the First Mortgage Indenture, which have not been retired by the application of *funded cash* and which have not been used as the basis for the authentication and delivery of first mortgage bonds, the release of property or the withdrawal of cash.

Future First Mortgage Bonds can be issued on the basis of *property additions*. At April 30, 2013, approximately \$1.8 billion of *property additions* were available to be used as the basis for the authentication and delivery of first mortgage bonds.

## Release of Property

Unless an *event of default* has occurred and is continuing, the Company may obtain the release from the lien of the First Mortgage Indenture of any Mortgaged Property, except for cash held by the First Mortgage Trustee, upon delivery to the First Mortgage Trustee of an amount in cash equal to the amount, if any, by which sixty-six and two-thirds percent (66-2/3%) of the cost

of the property to be released (or, if less, the *fair value* to the Company of such property at the time it became *funded property*) exceeds the aggregate of:

- an amount equal to 66 2/3% of the aggregate principal amount of obligations secured by *purchase money liens* upon the property to be released and delivered to the First Mortgage Trustee;
- an amount equal to 66 2/3% of the *cost* or *fair value* to the Company (whichever is less) of certified *property additions* not constituting *funded property* after certain deductions and additions, primarily including adjustments to offset property retirements (except that such adjustments need not be made if such *property additions* were acquired or made within the 90-day period preceding the release);
- the aggregate principal amount of first mortgage bonds the Company would be entitled to issue on the basis of *retired securities* (with such entitlement being waived by operation of such release);
- the aggregate principal amount of first mortgage bonds delivered to the First Mortgage Trustee (with such first mortgage bonds to be canceled by the First Mortgage Trustee);
- any amount of cash and/or an amount equal to 66 2/3% of the aggregate principal amount of obligations secured by *purchase money liens* upon the property released delivered to the trustee or other holder of a lien prior to the lien of the First Mortgage Indenture, subject to certain limitations described in the First Mortgage Indenture; and
- any taxes and expenses incidental to any sale, exchange, dedication or other disposition of the property to be released.

As used in the First Mortgage Indenture, the term *purchase money lien* means, generally, a lien on the property being released which is retained by the transferor of such property or granted to one or more other persons in connection with the transfer or release thereof, or granted to or held by a trustee or agent for any such persons, and may include liens which cover property in addition to the property being released and/or which secure indebtedness in addition to indebtedness to the transferor of such property.

Unless an *event of default* has occurred and is continuing, property which is not *funded property* may generally be released from the lien of the First Mortgage Indenture without depositing any cash or property with the First Mortgage Trustee as long as (a) the aggregate amount of *cost* or *fair value* to the Company (whichever is less) of all *property additions* which do not constitute *funded property* (excluding the property to be released) after certain deductions and additions, primarily including adjustments to offset property retirements, is not less than zero or (b) the *cost* or *fair value* (whichever is less) of property to be released does not exceed the aggregate amount of the *cost* or *fair value* to the Company (whichever is less) of *property additions* acquired or made within the 90-day period preceding the release.

The First Mortgage Indenture provides simplified procedures for the release of minor properties and property taken by eminent domain, and provides for dispositions of certain

obsolete property and grants or surrender of certain rights without any release or consent by the First Mortgage Trustee.

If the Company retains any interest in any property released from the lien of the First Mortgage Indenture, the First Mortgage Indenture will not become a lien on such property or such interest therein or any improvements, extensions or additions to such property or renewals, replacements or substitutions of or for such property or any part or parts thereof.

### **Withdrawal of Cash**

Unless an *event of default* has occurred and is continuing, and subject to certain limitations, cash held by the First Mortgage Trustee may, generally, (1) be withdrawn by the Company (a) to the extent of sixty-six and two-thirds percent (66-2/3%) of the cost or *fair value* to the Company (whichever is less) of *property additions* not constituting *funded property*, after certain deductions and additions, primarily including adjustments to offset retirements (except that such adjustments need not be made if such *property additions* were acquired or made within the 90-day period preceding the withdrawal) or (b) in an amount equal to the aggregate principal amount of first mortgage bonds that the Company would be entitled to issue on the basis of *retired securities* (with the entitlement to such issuance being waived by operation of such withdrawal) or (c) in an amount equal to the aggregate principal amount of any outstanding first mortgage bonds delivered to the First Mortgage Trustee; or (2) upon the Company's request, be applied to (a) the purchase of first mortgage bonds in a manner and at a price approved by the Company or (b) the payment (or provision for payment) at stated maturity of any first mortgage bonds or the redemption (or provision for payment) of any first mortgage bonds which are redeemable; provided, however, that cash deposited with the First Mortgage Trustee as the basis for the authentication and delivery of first mortgage bonds may, in addition, be withdrawn in an amount not exceeding the aggregate principal amount of cash delivered to the First Mortgage Trustee for such purpose.

### **Events of Default**

An "*event of default*" occurs under the First Mortgage Indenture if

- the Company does not pay any interest on any first mortgage bonds within 30 days of the due date;
- the Company does not pay principal or premium, if any, on any first mortgage bonds on the due date;
- the Company remains in breach of any other covenant (excluding covenants specifically dealt with elsewhere in this section) in respect of any first mortgage bonds for 90 days after the Company receives a written notice of default stating the Company is in breach and requiring remedy of the breach; the notice must be sent by either the First Mortgage Trustee or holders of 25% of the principal amount of outstanding first mortgage bonds; the First Mortgage Trustee or such holders can agree to extend the 90-day period and such an agreement to extend will be automatically deemed to occur if the Company initiates

corrective action within such 90 day period and the Company is diligently pursuing such action to correct the default; or

- the Company files for bankruptcy or certain other events in bankruptcy, insolvency, receivership or reorganization occur.

## Remedies

Acceleration of Maturity. If an event of default occurs and is continuing, then either the First Mortgage Trustee or the holders of not less than 25% in principal amount of the outstanding first mortgage bonds may declare the principal amount of all of the first mortgage bonds to be due and payable immediately.

Rescission of Acceleration. After the declaration of acceleration has been made and before the First Mortgage Trustee has obtained a judgment or decree for payment of the money due, such declaration and its consequences will be rescinded and annulled, if

- the Company pays or deposits with the First Mortgage Trustee a sum sufficient to pay:
  - all overdue interest;
  - the principal of and premium, if any, which have become due otherwise than by such declaration of acceleration and interest thereon;
  - interest on overdue interest to the extent lawful;
  - all amounts due to the First Mortgage Trustee under the First Mortgage Indenture; and
- all *events of default*, other than the nonpayment of the principal which has become due solely by such declaration of acceleration, have been cured or waived as provided in the First Mortgage Indenture.

For more information as to waiver of defaults, see “— Waiver of Default and of Compliance” below.

Appointment of Receiver and Other Remedies. Subject to the First Mortgage Indenture, under certain circumstances and to the extent permitted by law, if an *event of default* occurs and is continuing, the First Mortgage Trustee has the power to appoint a receiver of the Mortgaged Property, and is entitled to all other remedies available to mortgagees and secured parties under the Uniform Commercial Code or any other applicable law.

Control by Holders; Limitations. Subject to the First Mortgage Indenture, if an *event of default* occurs and is continuing, the holders of a majority in principal amount of the outstanding first mortgage bonds will have the right to

- direct the time, method and place of conducting any proceeding for any remedy available to the First Mortgage Trustee, or



- exercise any trust or power conferred on the First Mortgage Trustee.

The rights of holders to make direction are subject to the following limitations:

- the holders' directions may not conflict with any law or the First Mortgage Indenture; and
- the holders' directions may not involve the First Mortgage Trustee in personal liability where the First Mortgage Trustee believes indemnity is not adequate.

The First Mortgage Trustee may also take any other action it deems proper which is not inconsistent with the holders' direction.

In addition, the First Mortgage Indenture provides that no holder of any first mortgage bond will have any right to institute any proceeding, judicial or otherwise, with respect to the First Mortgage Indenture for the appointment of a receiver or for any other remedy thereunder unless

- that holder has previously given the First Mortgage Trustee written notice of a continuing *event of default*;
- the holders of 25% in aggregate principal amount of the outstanding first mortgage bonds have made written request to the First Mortgage Trustee to institute proceedings in respect of that *event of default* and have offered the First Mortgage Trustee reasonable indemnity against costs, expenses and liabilities incurred in complying with such request; and
- for 60 days after receipt of such notice, request and offer of indemnity, the First Mortgage Trustee has failed to institute any such proceeding and no direction inconsistent with such request has been given to the First Mortgage Trustee during such 60-day period by the holders of a majority in aggregate principal amount of outstanding first mortgage bonds.

Furthermore, no holder of any first mortgage bonds will be entitled to institute any such action if and to the extent that such action would disturb or prejudice the rights of other holders of first mortgage bonds.

However, each holder of any first mortgage bonds has an absolute and unconditional right to receive payment when due and to bring a suit to enforce that right.

Notice of Default. The First Mortgage Trustee is required to give the holders of the first mortgage bonds notice of any default under the First Mortgage Indenture to the extent required by the Trust Indenture Act, unless such default has been cured or waived; except that in the case of an *event of default* of the character specified in the third bullet point under “— Events of Default” (regarding a breach of certain covenants continuing for 90 days after the receipt of a written notice of default), no such notice shall be given to such holders until at least 60 days after the occurrence thereof. The Trust Indenture Act currently permits the First Mortgage Trustee to withhold notices of default (except for certain payment defaults) if the First Mortgage Trustee in

good faith determines the withholding of such notice to be in the interests of the holders of the first mortgage bonds.

The Company will furnish the First Mortgage Trustee with an annual statement as to its compliance with the conditions and covenants in the First Mortgage Indenture.

*Waiver of Default and of Compliance.* The holders of a majority in aggregate principal amount of the outstanding first mortgage bonds may waive, on behalf of the holders of all outstanding first mortgage bonds, any past default under the First Mortgage Indenture, except a default in the payment of principal, premium or interest, or with respect to compliance with certain provisions of the First Mortgage Indenture that cannot be amended without the consent of the holder of each outstanding first mortgage bond affected.

Compliance with certain covenants in the First Mortgage Indenture or otherwise provided with respect to first mortgage bonds may be waived by the holders of a majority in aggregate principal amount of the affected first mortgage bonds, considered as one class.

### **Consolidation, Merger and Conveyance of Assets as an Entirety**

Subject to the provisions described below, the Company has agreed to preserve its corporate existence.

The Company has agreed not to consolidate with or merge with or into any other entity or convey, transfer or lease the Mortgaged Property as or substantially as an entirety to any entity unless

- the entity formed by such consolidation or into which the Company merges, or the entity which acquires or which leases the Mortgaged Property substantially as an entirety, is an entity organized and existing under the laws of the United States of America or any State or Territory thereof or the District of Columbia, and
- expressly assumes, by supplemental indenture, the due and punctual payment of the principal of, and premium and interest on, all the outstanding first mortgage bonds and the performance of all of the Company's covenants under the First Mortgage Indenture, and
- such entity confirms the lien of the First Mortgage Indenture on the Mortgaged Property, including property thereafter acquired by such entity which constitutes an improvement, extension or addition to the Mortgaged Property or a renewal, replacement or substitution thereof;
- in the case of a lease, such lease is made expressly subject to termination by (i) the Company or by the First Mortgage Trustee and (ii) the purchaser of the property so leased at any sale thereof, at any time during the continuance of an *event of default*; and

- immediately after giving effect to such transaction, no *event of default*, and no event which after notice or lapse of time or both would become an *event of default*, will have occurred and be continuing.

In the case of the conveyance or other transfer of the Mortgaged Property as or substantially as an entirety to any other person, upon the satisfaction of all the conditions described above the Company would be released and discharged from all obligations under the First Mortgage Indenture and on the first mortgage bonds then outstanding unless the Company elects to waive such release and discharge.

The First Mortgage Indenture does not prevent or restrict:

- any consolidation or merger after the consummation of which the Company would be the surviving or resulting entity; or
- any conveyance or other transfer, or lease, of any part of the Mortgaged Property which does not constitute the entirety or substantially the entirety thereof.

If following a conveyance or other transfer, or lease, of any part of the Mortgaged Property, the fair value of the Mortgaged Property retained by the Company exceeds an amount equal to three-halves ( $3/2$ ) of the aggregate principal amount of all outstanding first mortgage bonds, then the part of the Mortgaged Property so conveyed, transferred or leased shall be deemed not to constitute the entirety or substantially the entirety of the Mortgaged Property. This fair value will be determined within 90 days of the conveyance or transfer by an independent expert that the Company selects and that is approved by the First Mortgage Trustee.

### **Modification of First Mortgage Indenture**

Without Holder Consent. Without the consent of any holders of first mortgage bonds, the Company and the First Mortgage Trustee may enter into one or more supplemental indentures for any of the following purposes:

- to evidence the succession of another entity to the Company;
- to add one or more covenants or other provisions for the benefit of the holders of all or any series or tranche of first mortgage bonds, or to surrender any right or power conferred upon the Company;
- to correct or amplify the description of any property at any time subject to the lien of the First Mortgage Indenture; or to better assure, convey and confirm unto the First Mortgage Trustee any property subject or required to be subjected to the lien of the First Mortgage Indenture; or to subject to the lien of the First Mortgage Indenture additional property (including property of others), to specify any additional Permitted Liens with respect to such additional property and to modify the provisions in the First Mortgage Indenture for dispositions of certain types of property without release in order to specify any additional items with respect to such additional property;

- to add any additional *events of default*, which may be stated to remain in effect only so long as the first mortgage bonds of any one more particular series remains outstanding;
- to change or eliminate any provision of the First Mortgage Indenture or to add any new provision to the First Mortgage Indenture that does not adversely affect the interests of the holders in any material respect;
- to establish the form or terms of any series or tranche of first mortgage bonds;
- to provide for the issuance of bearer securities;
- to evidence and provide for the acceptance of appointment of a successor First Mortgage Trustee or by a co-trustee or separate trustee;
- to provide for the procedures required to permit the utilization of a noncertificated system of registration for any series or tranche of first mortgage bonds;
- to change any place or places where
  - the Company may pay principal, premium and interest,
  - first mortgage bonds may be surrendered for transfer or exchange, and
  - notices and demands to or upon the Company may be served;
- to amend and restate the First Mortgage Indenture as originally executed, and as amended from time to time, with such additions, deletions and other changes that do not adversely affect the interest of the holders in any material respect;
- to cure any ambiguity, defect or inconsistency or to make any other changes that do not adversely affect the interests of the holders in any material respect; or
- to increase or decrease the maximum principal amount of first mortgage bonds that may be outstanding at any time.

In addition, if the Trust Indenture Act is amended after the date of the First Mortgage Indenture so as to require changes to the First Mortgage Indenture or so as to permit changes to, or the elimination of, provisions which, at the date of the First Mortgage Indenture or at any time thereafter, were required by the Trust Indenture Act to be contained in the First Mortgage Indenture, the First Mortgage Indenture will be deemed to have been amended so as to conform to such amendment or to effect such changes or elimination, and the Company and the First Mortgage Trustee may, without the consent of any holders, enter into one or more supplemental indentures to effect or evidence such amendment.

*With Holder Consent.* Except as provided above, the consent of the holders of at least a majority in aggregate principal amount of the first mortgage bonds of all outstanding series, considered as one class, is generally required for the purpose of adding to, or changing or

eliminating any of the provisions of, the First Mortgage Indenture pursuant to a supplemental indenture. However, if less than all of the series of outstanding first mortgage bonds are directly affected by a proposed supplemental indenture, then such proposal only requires the consent of the holders of a majority in aggregate principal amount of the outstanding first mortgage bonds of all directly affected series, considered as one class. Moreover, if the first mortgage bonds of any series have been issued in more than one tranche and if the proposed supplemental indenture directly affects the rights of the holders of first mortgage bonds of one or more, but less than all, of such tranches, then such proposal only requires the consent of the holders of a majority in aggregate principal amount of the outstanding first mortgage bonds of all directly affected tranches, considered as one class.

However, no amendment or modification may, without the consent of the holder of each outstanding first mortgage bond directly affected thereby,

- change the stated maturity of the principal or interest on any first mortgage bond (other than pursuant to the terms thereof), or reduce the principal amount, interest or premium payable (or method of calculating such rates) or change the currency in which any first mortgage bond is payable, or impair the right to bring suit to enforce any payment;
- create any lien (not otherwise permitted by the First Mortgage Indenture) ranking prior to the lien of the First Mortgage Indenture with respect to all or substantially all of the Mortgaged Property, or terminate the lien of the First Mortgage Indenture on all or substantially all of the Mortgaged Property (other than in accordance with the terms of the First Mortgage Indenture), or deprive any holder of the benefits of the security of the lien of the First Mortgage Indenture;
- reduce the percentages of holders whose consent is required for any supplemental indenture or waiver of compliance with any provision of the First Mortgage Indenture or of any default thereunder and its consequences, or reduce the requirements for quorum and voting under the First Mortgage Indenture; or
- modify certain of the provisions of the First Mortgage Indenture relating to supplemental indentures, waivers of certain covenants and waivers of past defaults with respect to first mortgage bonds.

A supplemental indenture which changes, modifies or eliminates any provision of the First Mortgage Indenture expressly included solely for the benefit of holders of first mortgage bonds of one or more particular series or tranches will be deemed not to affect the rights under the First Mortgage Indenture of the holders of first mortgage bonds of any other series or tranche.

### **Satisfaction and Discharge**

Any first mortgage bonds or any portion thereof will be deemed to have been paid and no longer outstanding for purposes of the First Mortgage Indenture and, at the Company's election, the Company's entire indebtedness with respect to those securities will be satisfied and

discharged, if there shall have been irrevocably deposited with the First Mortgage Trustee or any Paying Agent (other than the Company), in trust:

- money sufficient, or
- in the case of a deposit made prior to the maturity of such first mortgage bonds, non-redeemable *eligible obligations* (as defined in the First Mortgage Indenture) sufficient, or
- a combination of the items listed in the preceding two bullet points, which in total are sufficient,

to pay when due the principal of, and any premium, and interest due and to become due on such first mortgage bonds or portions of such first mortgage bonds on and prior to their maturity.

The Company's right to cause its entire indebtedness in respect of the first mortgage bonds of any series to be deemed to be satisfied and discharged as described above will be subject to the satisfaction of any conditions specified in the instrument creating such series.

The First Mortgage Indenture will be deemed satisfied and discharged when no first mortgage bonds remain outstanding and when the Company has paid all other sums payable by it under the First Mortgage Indenture.

All moneys the Company pays to the First Mortgage Trustee or any Paying Agent on First Mortgage Bonds that remain unclaimed at the end of two years after payments have become due may be paid to or upon the Company's order. Thereafter, the holder of such First Mortgage Bond may look only to the Company for payment.

#### **Duties of the First Mortgage Trustee; Resignation and Removal of the First Mortgage Trustee; Deemed Resignation**

The First Mortgage Trustee will have, and will be subject to, all the duties and responsibilities specified with respect to an indenture trustee under the Trust Indenture Act. Subject to these provisions, the First Mortgage Trustee will be under no obligation to exercise any of the powers vested in it by the First Mortgage Indenture at the request of any holder of first mortgage bonds, unless offered reasonable indemnity by such holder against the costs, expenses and liabilities which might be incurred thereby. The First Mortgage Trustee will not be required to expend or risk its own funds or otherwise incur financial liability in the performance of its duties if the First Mortgage Trustee reasonably believes that repayment or adequate indemnity is not reasonably assured to it.

The First Mortgage Trustee may resign at any time by giving written notice to the Company.

The First Mortgage Trustee may also be removed by act of the holders of a majority in principal amount of the then outstanding first mortgage bonds of any series.

No resignation or removal of the First Mortgage Trustee and no appointment of a successor trustee will become effective until the acceptance of appointment by a successor trustee in accordance with the requirements of the First Mortgage Indenture.

Under certain circumstances, the Company may appoint a successor trustee and if the successor accepts, the First Mortgage Trustee will be deemed to have resigned.

### **Evidence to be Furnished to the First Mortgage Trustee**

Compliance with First Mortgage Indenture provisions is evidenced by written statements of the Company's officers or persons selected or paid by the Company. In certain cases, opinions of counsel and certifications of an engineer, accountant, appraiser or other expert (who in some cases must be independent) must be furnished. In addition, the First Mortgage Indenture requires the Company to give to the First Mortgage Trustee, not less than annually, a brief statement as to the Company's compliance with the conditions and covenants under the First Mortgage Indenture.

### **Miscellaneous Provisions**

The First Mortgage Indenture provides that certain first mortgage bonds, including those for which payment or redemption money has been deposited or set aside in trust as described under "— Satisfaction and Discharge" above, will not be deemed to be "outstanding" in determining whether the holders of the requisite principal amount of the outstanding first mortgage bonds have given or taken any demand, direction, consent or other action under the First Mortgage Indenture as of any date, or are present at a meeting of holders for quorum purposes.

The Company will be entitled to set any day as a record date for the purpose of determining the holders of outstanding first mortgage bonds of any series entitled to give or take any demand, direction, consent or other action under the First Mortgage Indenture, in the manner and subject to the limitations provided in the First Mortgage Indenture. In certain circumstances, the First Mortgage Trustee also will be entitled to set a record date for action by holders. If such a record date is set for any action to be taken by holders of particular first mortgage bonds, such action may be taken only by persons who are holders of such first mortgage bonds on the record date.

### **Governing Law**

The First Mortgage Indenture and the first mortgage bonds provide that they are to be governed by and construed in accordance with the laws of the State of New York except where the Trust Indenture Act is applicable or where otherwise required by law. The effectiveness of the lien of the First Mortgage Indenture, and the perfection and priority thereof, will be governed by Kentucky law.



### Summary of the Indenture

*The following, in addition to the provisions contained elsewhere in this Reoffering Circular, is a brief description of certain provisions of the Indenture. This description is only a summary and does not purport to be complete and definitive. Reference is made to the Indenture for the detailed provisions thereof.*

#### Security

Pursuant to the Indenture, the Issuer has assigned and pledged to the Trustee its interest in and to the Loan Agreement, including payments and other amounts due the Issuer thereunder, together with all moneys, property and securities from time to time held by the Trustee under the Indenture (with certain exceptions, including moneys held in or earnings on the Rebate Fund and the Purchase Fund). The Bonds have been further secured by the First Mortgage Bonds delivered to the Trustee (see “Summary of the Loan Agreement — Issuance and Delivery of First Mortgage Bonds”). The First Mortgage Bonds will be registered in the name of the Trustee and will be nontransferable, except to effect a transfer to any successor trustee. The Bonds will not be directly secured by the Project (although the Project is subject to the lien of the First Mortgage Indenture).

#### No Pecuniary Liability of the Issuer

No provision, covenant or agreement contained in the Indenture or in the Loan Agreement, nor any breach thereof, will constitute or give rise to any pecuniary liability of the Issuer or any charge upon any of its assets or its general credit or taxing powers. The Issuer has not obligated itself by making the covenants, agreements or provisions contained in the Indenture or in the Loan Agreement, except with respect to the Project and the application of the amounts assigned to payment of the principal of, premium, if any, and interest on the Bonds.

#### The Bond Fund

The payments to be made by the Company pursuant to the Loan Agreement to the Issuer and certain other amounts specified in the Indenture will be deposited into a Bond Fund established pursuant to the Indenture (the “Bond Fund”) and will be maintained in trust by the Trustee. Moneys in the Bond Fund will be used for the payment of the principal of, premium, if any, and interest on the Bonds, and for the redemption of Bonds prior to maturity in the following order of priority: (i) proceeds of the Credit Facility, if any, deposited into the Bond Fund in accordance with the Indenture and (ii) any other moneys provided by or on behalf of the Company. Any moneys held in the Bond Fund will be invested by the Trustee at the specific written direction of the Company in certain Governmental Obligations, investment-grade corporate obligations and other investments permitted under the Indenture.

So long as a Credit Facility is then held by the Trustee and there is no default in the payment of principal or redemption price of or interest on the Bonds, any amounts in the Bond Fund provided by or on behalf of the Company will be paid to the Credit Facility Issuer to the extent of any amounts that the Company owes the Credit Facility Issuer pursuant to the

Reimbursement Agreement. Any amounts remaining in the Bond Fund (first, from the proceeds of the Credit Facility, and second, from the moneys provided by or on behalf of the Company) after payment in full of the principal or redemption price of and interest on the Bonds (or provision for payment thereof) and payment of any outstanding fees and expenses of the Trustee (including its reasonable attorney fees and expenses) will be paid, first, to the Credit Facility Issuer, to the extent of any amounts that the Company owes the Credit Facility Issuer pursuant to the Reimbursement Agreement and, second, to the Company. Any amounts remaining in the Bond Fund (i) after all of the outstanding Bonds have been paid and discharged, (ii) after payment of all fees, charges and expenses to the Issuer, the Trustee, the Registrar and the Paying Agent and of all other amounts required to be paid under the Indenture and the Loan Agreement and (iii) after the receipt by the Trustee of the written request of the Company for such payment, will be paid to the Credit Facility Issuer, if any, to the extent of any amounts that the Company owes to such Credit Facility Issuer pursuant to the Reimbursement Agreement, and then to the Company to the extent that those moneys are in excess of the amounts necessary to effect the payment and discharge of the outstanding Bonds.

### **The Rebate Fund**

A Rebate Fund has been created by the Indenture (the “Rebate Fund”) and will be maintained as a separate fund free and clear of the lien of the Indenture. The Issuer, the Trustee and the Company have agreed to comply with all rebate requirements of the Code and, in particular, the Company has agreed that if necessary, it will deposit in the Rebate Fund any such amount as is required under the Code. However, the Issuer, the Trustee and the Company may disregard the Rebate Fund provisions to the extent that they receive an opinion of Bond Counsel that such failure to comply will not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes.

### **Discharge of Indenture**

When all the Bonds and all fees and charges accrued and to accrue of the Trustee and the Paying Agent have been paid or provided for, and when proper notice has been given to the Bondholders or the Trustee that the proper amounts have been so paid or provided for, and if the Issuer is not in default in any other respect under the Indenture, the Indenture will become null and void. The Bonds will be deemed to have been paid and discharged when there have been irrevocably deposited with the Trustee moneys sufficient to pay the principal, premium, if any, and accrued interest on such Bonds to the due date (whether such date be by reason of maturity or upon redemption) or, in lieu thereof, Governmental Obligations have been deposited which mature in such amounts and at such times as will provide the funds necessary to so pay such Bonds, and when all reasonable and necessary fees and expenses of the Trustee, the Tender Agent, the Authenticating Agent, the Bond Registrar and the Paying Agent have been paid or provided for.

Notwithstanding anything to the contrary, if any Bonds are rated by a rating service, no such Bonds will be deemed to have been paid and discharged by reason of any deposit pursuant to the Indenture, unless each such rating service has confirmed in writing to the Trustee that its rating will not be withdrawn or lowered as a result of any such deposit.

So long as the Company owes any amounts to the Credit Facility Issuer, if any, pursuant to the Reimbursement Agreement: (A) the lien of the Indenture may not be discharged; (B) such Credit Facility Issuer shall be subrogated to the extent of such amounts owed by the Company to such Credit Facility Issuer to all rights of the Bondholders to enforce the payment of the Bonds from the revenues and all other rights of the Bondholders under the Bonds, the Indenture and the Loan Agreement; (C) the Bondholders will be deemed paid to the extent of money drawn by the Trustee under the Credit Facility; and (D) subject to the Indenture, the Trustee will sign, execute and deliver all documents or instruments and do all things that may be reasonably required by the Credit Facility Issuer to effect the Credit Facility Issuer's subrogation of rights of enforcement and remedies set forth in the Indenture.

### **Surrender of First Mortgage Bonds**

Upon payment of any principal of, premium, if any, and interest on any of the Bonds which reduces the principal amount of Bonds outstanding, or upon provision for the payment thereof having been made in accordance with the Indenture, First Mortgage Bonds in a principal amount equal to the principal amount of the Bonds so paid, or for the payment of which such provision has been made, shall be surrendered by the Trustee to the First Mortgage Trustee. The First Mortgage Bonds so surrendered shall be deemed fully paid and the obligations of the Company thereunder terminated.

### **Defaults and Remedies**

Each of the following events constitutes an "Event of Default" under the Indenture:

- (1) Failure to make payment of any installment of interest on any Bond, (a) if such Bond bears interest at other than the Long Term Rate, within a period of one Business Day from the due date and (b) if such Bond bears interest at the Long Term Rate, within a period of five Business Days from the date due;
- (2) Failure to make punctual payment of the principal of, or premium, if any, on any Bond on the due date, whether at the stated maturity thereof, or upon proceedings for redemption, or upon the maturity thereof by declaration or if payment of the purchase price of any Bond required to be purchased pursuant to the Indenture is not made when such payment has become due and payable;
- (3) Failure of the Issuer to perform or observe any other of the covenants, agreements or conditions in the Indenture or in the Bonds which failure continues for a period of 30 days after written notice by the Trustee, provided, however, that if such failure is capable of being cured, but cannot be cured in such 30-day period, it will not constitute an event of default under the Indenture if corrective action in respect of such failure is instituted within such 30-day period and is being diligently pursued;
- (4) The occurrence of an "event of default" under the Loan Agreement (see "Summary of the Loan Agreement — Events of Default");

(5) Written notice from the Credit Facility Issuer to the Trustee of an event of default under the Reimbursement Agreement, by reason of which the Trustee has been directed to accelerate the Bonds;

(6) If a Credit Facility is then held by the Trustee, on or before the close of business on the tenth calendar day following the honoring of a drawing under such Credit Facility to pay interest on the bonds on an Interest Payment Date, written notice from the Credit Facility Issuer to the Trustee that the interest component of the Credit Facility will not be reinstated; or

(7) All first mortgage bonds outstanding under the First Mortgage Indenture, if not already due, shall have become due and payable, whether by declaration or otherwise, and such acceleration shall not have been rescinded by the First Mortgage Trustee.

Upon the occurrence of an Event of Default under clauses (1), (2), (5), (6) or (7) above, the Trustee must: (i) enforce each and every right granted to the Trustee as a holder of the First Mortgage Bonds (see “Summary of the First Mortgage Bonds”), (ii) declare the principal of all Bonds and interest accrued thereon to be immediately due and payable, (iii) declare all payments under the Loan Agreement to be immediately due and payable and enforce each and every other right granted to the Issuer under the Loan Agreement for the benefit of the Bondholders and (iv) if a Credit Facility securing the Bonds is in effect, make an immediate drawing under the Credit Facility in accordance with its terms and deposit the proceeds of such drawing in the Bond Fund pending application to the payment of principal of the Bonds, subject to the provisions of the Indenture reserving to the Credit Facility Issuer the right to direct default proceedings and providing for termination of default proceedings upon certain occurrences.

Interest on the Bonds will cease to accrue on the date of issuance of the declaration of acceleration of payment of principal and interest on the Bonds.

In exercising such rights, the Trustee shall take any action that, in the judgment of the Trustee, would best serve the interests of the registered owners. Upon the occurrence of an Event of Default under the Indenture, the Trustee may also proceed to pursue any available remedy by suit at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Bonds then outstanding.

If an Event of Default under the Indenture shall occur and be continuing and the maturity date of the Bonds has been accelerated (to the extent the Bonds are not already due and payable) as a consequence of such event of default, the Trustee may, and upon the written request of the registered owners holding not less than 25% in principal amount of all Bonds then outstanding and upon receipt of indemnity satisfactory to it shall, exercise such rights as it shall possess under the First Mortgage Indenture as a holder of the First Mortgage Bonds and shall also issue a Redemption Demand for such First Mortgage Bonds to the First Mortgage Trustee.

If the Trustee recovers any moneys following an Event of Default, unless the principal of the Bonds shall have been declared due and payable, all such moneys shall be applied in the following order: (i) to the payment of the fees, expenses, liabilities and advances incurred or made by the Trustee and the Paying Agent and the payment of any sums due and payable to the

United States pursuant to Section 148(f) of the Code, (ii) to the payment of all interest then due on the Bonds and (iii) to the payment of unpaid principal and premium, if any, of the Bonds. If the principal of the Bonds has become due or has been accelerated, such moneys shall be applied in the following order: (i) to the payment of the fees, expenses, liabilities and advances incurred or made by the Trustee and the Paying Agent and (ii) to the payment of principal of and interest then due and unpaid on the Bonds. In each case, however, Trustee and Paying Agent fees or costs will not be payable from moneys derived from Credit Facility drawings, any remarketing proceeds or moneys constituting certain Available Moneys under the Indenture.

No Bondholder may institute any suit or proceeding in equity or at law for the enforcement of the Indenture unless an Event of Default has occurred of which the Trustee has been notified or is deemed to have notice, and registered owners holding not less than 25% in aggregate principal amount of Bonds then outstanding shall have made written request to the Trustee to proceed to exercise the powers granted under the Indenture or to institute such action in their own name and the Trustee shall fail or refuse to exercise its powers within a reasonable time after receipt of indemnity satisfactory to it.

Any judgment against the Issuer pursuant to the exercise of rights under the Indenture shall be enforceable only against specific assigned payments, funds and accounts under the Indenture in the hands of the Trustee. No deficiency judgment shall be authorized against the general credit of the Issuer.

No default under paragraph (3) above shall constitute an Event of Default until actual notice is given to the Issuer and the Company by the Trustee or to the Issuer, the Company and the Trustee by the registered owners holding not less than 25% in aggregate principal amount of all Bonds outstanding and the Issuer and the Company shall have had thirty days after such notice to correct the default and failed to do so. If the default is such that it cannot be corrected within the applicable period but is capable of being cured, it will not constitute an Event of Default if corrective action is instituted by the Issuer or the Company within the applicable period and diligently pursued until the default is corrected.

Notwithstanding the foregoing, in addition to the rights of the Trustee and the Bondholders to direct proceedings as described above, if a Credit Facility is in effect, for so long as such Credit Facility is outstanding and the Credit Facility Issuer is not in default in its duties under the Indenture or the Credit Facility, the Credit Facility Issuer will have the absolute right to direct all proceedings on behalf of the Bondholders of the Bonds. Additionally, if the Event of Default which has occurred is an Event of Default under paragraphs (5) or (6) above, the Credit Facility Issuer, if any, will have no right to direct the Trustee or the Bondholders with respect to any matters, including remedies, and the holders of a majority in aggregate principal amount of the Bonds then outstanding, will have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, or for the appointment of a receiver or any other proceedings hereunder; provided, that such direction shall not be otherwise than in accordance with the provisions of law and of the Indenture.

If an Event of Default has occurred under the Indenture due to failure by the Credit Facility Issuer, if any, to honor a properly presented and conforming drawing by the Trustee under the Credit Facility then in effect in accordance with the terms thereof, all obligations of the Trustee to the Credit Facility Issuer and all rights of such Credit Facility Issuer under the Indenture will be suspended until the earlier of the cure of such failure or all of the Bonds have been paid in full.

### **Waiver of Events of Default**

Except as provided below, the Trustee may in its discretion waive any Event of Default under the Indenture and shall do so upon the written request of the registered owners holding a majority in principal amount of all Bonds then outstanding. If, after the principal of all Bonds then outstanding shall have been declared to be due and payable as a result of a default under the Indenture and prior to any judgment or decree for the appointment of a receiver or for the payment of the moneys due shall have been entered, (i) the Company has caused to be deposited with the Trustee a sum sufficient to pay all matured installments of interest upon all Bonds and the principal of and premium, if any, on any and all Bonds which shall have become due otherwise than by reason of such declaration and the expenses of the Trustee in connection with such default (with interest thereon as provided in the Indenture) and (ii) all Events of Default under the Indenture (other than nonpayment of the principal of Bonds due by said declaration) shall have been remedied, then such Event of Default shall be deemed waived and such declaration and its consequences rescinded and annulled by the Trustee. Such waiver, rescission and annulment shall be binding upon all Bondholders. No such waiver, rescission and annulment shall extend to or affect any subsequent Event of Default or impair any right or remedy consequent thereon.

Upon any waiver or rescission as described above or any discontinuance or abandonment of proceedings under the Indenture, the Trustee shall immediately rescind in writing any Redemption Demand of First Mortgage Bonds previously given to the First Mortgage Trustee. The rescission under the First Mortgage Indenture of a declaration that all first mortgage bonds outstanding under the First Mortgage Indenture are immediately due and payable shall also constitute a waiver of an Event of Default described in paragraph (6) under the subcaption “— Defaults and Remedies” above and a waiver and rescission of its consequences, provided that no such waiver or rescission shall extend to or affect any subsequent or other default or impair any right consequent thereon.

The Trustee may not waive any default under clauses (5) or (6) above unless the Trustee has received in writing from the Credit Facility Issuer a written notice of full reinstatement of the full amount of the Credit Facility and a written rescission of the notice of the Event of Default.

Notwithstanding the foregoing, nothing in the Indenture shall affect the right of a registered owner to enforce the payment of principal of, premium, if any, and interest on the Bonds after the maturity thereof.

### **Voting of First Mortgage Bonds Held by Trustee**

The Trustee, as holder of the First Mortgage Bonds, shall attend any meeting of holders of first mortgage bonds outstanding under the First Mortgage Indenture as to which it receives due notice. The Trustee shall vote the First Mortgage Bonds held by it, or shall consent with respect thereto, proportionally in the way in which the Trustee reasonably believes will be the vote or consent of all other holders of first mortgage bonds outstanding under the First Mortgage Indenture then eligible to vote or consent.

Notwithstanding the foregoing, the Trustee may not vote the First Mortgage Bonds in favor of, or give consent to, any action which, in the Trustee's opinion, would materially adversely affect the First Mortgage Bonds in a manner not generally shared by all other series of first mortgage bonds, except upon notification by the Trustee to the registered owners of all Bonds then outstanding of such proposal and consent thereto of the registered owners of at least 66 2/3% in aggregate principal amount of all Bonds then outstanding.

### **Supplemental Indentures**

The Issuer and the Trustee may enter into indentures supplemental to the Indenture without the consent of or notice to the Bondholders in order (i) to cure any ambiguity or formal defect or omission in the Indenture, (ii) to grant to or confer upon the Trustee, as may lawfully be granted, additional rights, remedies, powers or authorities for the benefit of the Bondholders, (iii) to subject to the Indenture additional revenues, properties or collateral, (iv) to permit qualification of the Indenture under any federal statute or state blue sky law, (v) to add additional covenants and agreements of the Issuer for the protection of the Bondholders or to surrender or limit any rights, powers or authorities reserved to or conferred upon the Issuer, (vi) to make any other modification or change to the Indenture which, in the sole judgment of the Trustee, does not adversely affect the Trustee or any Bondholder, (vii) to make other amendments not otherwise permitted by (i), (ii), (iii), (iv) or (vi) of this paragraph to provisions relating to federal income tax matters under the Code or other relevant provisions if, in the opinion of Bond Counsel, those amendments would not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes, (viii) to make any modifications or changes to the Indenture necessary to provide the securing of a Credit Facility or Alternate Credit Facility or any liquidity or credit support of any kind for the security of the Bonds (including without limitation any line of credit, letter of credit, guaranty agreement or insurance coverage), including any modifications of the Indenture or the Agreement necessary to upgrade or maintain the then applicable ratings on the Bonds or (ix) to permit the issuance of the Bonds in other than book-entry-only form or to provide changes to or for the book-entry system.

Subject to the consent of the Credit Facility Issuer, if any, exclusive of supplemental indentures for the purposes set forth in the preceding paragraph, the consent of registered owners holding a majority in aggregate principal amount of all Bonds then outstanding is required to approve any supplemental indenture, except no such supplemental indenture may permit, without the consent of all of the registered owners of the Bonds then outstanding, (i) an extension of the maturity of the principal of or the interest on any Bond issued under the Indenture or a reduction in the principal amount of any Bond or the rate of interest or time of redemption or redemption premium thereon, (ii) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, (iii) a reduction in the aggregate principal amount of the Bonds required for consent to



such supplemental indenture or (iv) the deprivation of any registered owners of the lien of the Indenture.

If at any time the Issuer requests the Trustee to enter into any supplemental indenture requiring the consent of the registered owners of the Bonds, the Trustee, upon being satisfactorily indemnified with respect to expenses, must notify all such registered owners. Such notice must set forth the nature of the proposed supplemental indenture and must state that copies thereof are on file at the principal office of the Trustee for inspection. If, within sixty days (or such longer period as prescribed by the Issuer or the Company) following the mailing of such notice, the registered owners holding the requisite amount of the Bonds outstanding have consented to the execution thereof, no Bondholder will have any right to object or question the execution thereof.

No supplemental indenture will become effective unless the Company consents to the execution and delivery of such supplemental indenture. The Company will be deemed to have consented to the execution and delivery of any supplemental indenture if the Trustee does not receive a notice of protest or objection signed by the Company on or before 4:30 p.m., local time in the city in which the principal office of the Trustee is located, on the fifteenth day after the mailing to the Company of a notice of the proposed changes and a copy of the proposed supplemental indenture.

Notwithstanding the foregoing, any Supplemental Indenture that requires the consent of the Bondholders that (i) is to become effective while a Credit Facility is in place or while any amounts are outstanding under any Reimbursement Agreement and (ii) adversely affects the Credit Facility Issuer will not become effective unless and until the Credit Facility Issuer consents in writing to the execution and delivery of such Supplemental Indenture.

### **Cancellation of Credit Facility; Delivery of Alternate Credit Facility**

The Trustee will, at the written direction of the Company but subject to the conditions described in this paragraph and the receipt of an Opinion of Bond Counsel stating that the cancellation of such Credit Facility is authorized under the Indenture and under the Act and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes, cancel any Credit Facility in accordance with the terms thereof which cancellation may be without substitution therefor or replacement thereof; provided, that any such cancellation will not become effective, surrender of such Credit Facility will not take place and that Credit Facility will not terminate, in any event, until (i) payment by the Credit Facility Issuer has been made for any and all drawings by the Trustee effected on or before such cancellation date (including, if applicable, any drawings for payment of the purchase price of Bonds to be purchased pursuant to the Indenture in connection with such cancellation) and (ii) if the Bonds are in an Long Term Rate Period, only if the then current Long Term Rate Period for the Bonds is ending on, or the Bonds are subject to optional redemption on, the Interest Payment Date immediately preceding the date of such cancellation. Upon written notice given by the Company to the Trustee at least 20 days (35 days if the Bonds are bearing interest at the Long Term Rate) prior to the date of cancellation of any Credit Facility of such cancellation and the effective date of such cancellation, the Trustee will surrender such Credit Facility to the Credit Facility Issuer by which it was issued on or promptly after the effective date of such cancellation in accordance

with its terms; provided, that such notice will not be given in any event, if the purchase price of any Bonds to be purchased pursuant to the Indenture in connection with such cancellation includes any premium unless the Company has certified in such notice that the Trustee can draw under a Credit Facility (other than any Alternate Credit Facility being delivered in connection with such cancellation) on the purchase date related to such purchase of Bonds in an aggregate amount sufficient to pay the premium due upon such purchase of Bonds on such purchase date.

The Company may, at its option, provide for the delivery to the Trustee of an Alternate Credit Facility in replacement of any Credit Facility then in effect. At least 20 days (35 days if the Interest Rate on the Bonds is a Long Term Rate) prior to the date of delivery of an Alternate Credit Facility to the Trustee, the Company must give notice, which notice will also be given to the Remarketing Agent, of such replacement to the Trustee, together with an Opinion of Bond Counsel to the effect that the delivery of such Alternate Credit Facility to the Trustee is authorized under the Indenture and the Act and complies with the terms thereof and that the delivery of such Alternate Credit Facility will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. The Trustee will then accept such Alternate Credit Facility and surrender the previously held Credit Facility, if any, to the previous Credit Facility Issuer for cancellation promptly on or after the 5th day after the Alternate Credit Facility becomes effective; provided, however, that such Alternate Credit Facility must become effective on an Interest Payment Date and, if the Bonds are in a Long Term Rate Period, such Alternate Credit Facility may only become effective on either the last Interest Payment Date for such Long Term Rate Period or an Interest Payment Date on which the Bonds are subject to optional redemption. The notice given to the Trustee shall also be given to the Issuer, the then current Credit Facility Issuer, Moody's, if the Bonds are then rated by Moody's, and S&P, if the Bonds are then rated by S&P; provided that the notice will not be given if the purchase price of any Bonds to be purchased pursuant to the Indenture in connection with such cancellation includes any premium unless the Company has certified in such notice that the Trustee can draw under a Credit Facility then in effect on the purchase date related to such purchase of Bonds in an aggregate amount sufficient to pay the premium due upon such purchase of Bonds on such purchase date and until payment under the Credit Facility to be surrendered shall have been made for any and all drawings by the Trustee effected on or before the date of such surrender for cancellation (including, if applicable, any drawings for payment of the purchase price of Bonds to be purchased pursuant to the Indenture in connection with such cancellation).

Any Alternate Credit Facility delivered to the Trustee must be accompanied by an opinion of counsel to the issuer or provider of such Credit Facility stating that such Credit Facility is a legal, valid, binding and enforceable obligation of such issuer or obligor in accordance with its terms.

The Bonds will be subject to mandatory tender for purchase on the date of cancellation of a Credit Facility and on the date of the delivery of an Alternate Credit Facility. See "Summary of the Bonds — Mandatory Purchases of Bonds."

### **Enforceability of Remedies**

The remedies available to the Trustee, the Issuer and the owners upon an event of default under the Loan Agreement, the Indenture or the First Mortgage Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, the remedies specified by the Loan Agreement, the Indenture or the First Mortgage Indenture may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Bonds were qualified as to the enforceability of the various legal instruments by limitations imposed by principles of equity, bankruptcy, reorganization, insolvency, moratorium or other similar laws affecting the rights of creditors generally.

### **Reoffering**

Subject to the terms and conditions of the Remarketing and Bond Purchase Agreement (the "Remarketing Agreement"), between the Company and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Remarketing Agent, the Remarketing Agent has agreed to remarket the Bonds delivered to the Paying Agent for purchase, at a price equal to 100% of the principal amount of the Bonds, plus accrued interest (if any), and in connection therewith will receive customary compensation, plus reimbursement of certain expenses. Under the terms of the Remarketing Agreement, the Company has agreed to indemnify the Remarketing Agent against certain civil liabilities, including liabilities under federal securities laws.

In the ordinary course of its business, the Remarketing Agent and certain of its affiliates, have engaged, and may in the future engage, in investment banking or commercial banking transactions with the Company.

### **Tax Treatment**

On each of February 23, 2007, the date of original issuance and delivery of the 2006 Series B Bonds, and October 17, 2008, the date of original issuance and delivery of the 2008 Series A Bonds, Bond Counsel delivered its opinions stating that under existing law, including current statutes, regulations, administrative rulings and official interpretations, subject to the qualifications and exceptions set forth below, interest on the Bonds would be excluded from the gross income of the recipients thereof for federal income tax purposes, except that no opinion would be expressed regarding such exclusion from gross income with respect to any Bond during any period in which it is held by a "substantial user" of the applicable Project or a "related person" as such terms are used in Section 147(a) of the Code. Interest on the Bonds will be an item of tax preference in determining alternative minimum taxable income for individuals and corporations under the Code. Bond Counsel further opined that, subject to the assumptions stated in the preceding sentence, (i) interest on the Bonds would be excluded from gross income of the owners thereof for Kentucky income tax purposes and (ii) the Bonds would be exempt from all ad valorem taxes in Kentucky. Such opinions have not been updated as of the date hereof and no continuing tax exemption opinions are expressed by Bond Counsel.

Bond Counsel delivered opinions to the effect that the conversion of the interest rate on the Bonds to the Weekly Rate and the delivery of the Letter of Credit (i) was authorized or

permitted by Sections 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes (the “Act”) and the Indenture and (ii) did not adversely affect the validity of the Bonds or any exclusion from gross income of interest on the Bonds for federal income tax purposes to which interest on the Bonds would otherwise be entitled.

The opinions of Bond Counsel as to the excludability of interest from gross income for federal income tax purposes were based upon and assumed the accuracy of certain representations of facts and circumstances, including with respect to the Projects, which were within the knowledge of the Company and compliance by the Company with certain covenants and undertakings set forth in the proceedings authorizing the Bonds which are intended to assure that the Bonds are and will remain obligations the interest on which is not includable in gross income of the recipients thereof under the law in effect on the date of such opinion. Bond Counsel did not independently verify the accuracy of the certifications and representations made by the Company and the Issuer. On the date of the applicable opinions and subsequent to the original delivery of the 2006 Series B Bonds on February 23, 2007 and the 2008 Series A Bonds on October 17, 2008, as applicable, such representations of facts and circumstances must be accurate and such covenants and undertakings must continue to be complied with in order that interest on the Bonds be and remain excludable from gross income of the recipients thereof for federal income tax purposes under existing law. Bond Counsel expressed no opinion (i) regarding the exclusion of interest on any Bond from gross income for federal income tax purposes on or after the date on which any change, including any interest rate conversion, permitted by the documents other than with the approval of Bond Counsel is taken which adversely affects the tax treatment of the Bonds or (ii) as to the treatment for purposes of federal income taxation of interest on the Bonds upon a Determination of Taxability.

Bond Counsel further opined that the Code prescribed a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes, some of which, including provisions for potential payments by the Issuers to the federal government, require future or continued compliance after issuance of the Bonds in order for the interest to be and to continue to be so excluded from the date of issuance. Noncompliance with certain of these requirements by the Company or the Issuer with respect to the Bonds could cause the interest on the Bonds to be included in gross income for federal income tax purposes and to be subject to federal income taxation retroactively to the date of their issuance. The Company and the Issuer each covenanted to take all actions required of each to assure that the interest on the Bonds shall be and remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion.

The opinions of Bond Counsel as to the exclusion of interest on the Bonds from gross income for federal income tax purposes and federal tax treatment of interest on the Bonds was subject to the following exceptions and qualifications:

- (a) The Code provides for a “branch profits tax” which subjects to tax, at a rate of 30%, the effectively connected earnings and profits of a foreign corporation which engages in a United States trade or business. Interest on the Bonds would be includable in the amount of effectively connected earnings and profits and thus would increase the branch profits tax liability.

(b) The Code also provides that passive investment income, including interest on the Bonds, may be subject to taxation for any S corporation with Subchapter C earnings and profits at the close of its taxable year if greater than 25% of its gross receipts is passive investment income.

Except as stated above, Bond Counsel expressed no opinion as to any federal or Kentucky tax consequences resulting from the receipt of interest on the Bonds.

Owners of the Bonds should be aware that the ownership of the Bonds may result in collateral federal income tax consequences. For instance, the Code provides that property and casualty insurance companies will be required to reduce their loss reserve deductions by 15% of the tax-exempt interest received on certain obligations, such as the Bonds, acquired after August 7, 1986. (For purposes of the immediately preceding sentence, a portion of dividends paid to an affiliated insurance company may be treated as tax-exempt interest.) The Code further provides for the disallowance of any deduction for interest expenses incurred by banks and certain other financial institutions allocable to carrying certain tax-exempt obligations, such as the Bonds, acquired after August 7, 1986. The Code also provides that, with respect to taxpayers other than such financial institutions, such taxpayers will be unable to deduct any portion of the interest expenses incurred or continued to purchase or carry the Bonds. The Code also provides, with respect to individuals, that interest on tax-exempt obligations, including the Bonds, is included in modified adjusted gross income for purposes of determining the taxability of social security and railroad retirement benefits. Furthermore, the earned income tax credit is not allowed for individuals with an aggregate amount of disqualified income within the meaning of Section 32 of the Code, which exceeds \$2,200. Interest on the Bonds will be taken into account in the calculation of disqualified income. Prospective purchasers of the Bonds should consult their own tax advisors regarding such matters and any other tax consequences of holding the Bonds.

From time to time, there are legislative proposals in Congress which, if enacted, could alter or amend one or more of the federal tax matters referred to above or could adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to obligations (such as the Bonds) issued prior to enactment.

The opinions of Bond Counsel relating to conversion of the Bonds to the Weekly Rate are attached as Appendices B-3 and B-4.

### **Legal Matters**

Certain legal matters in connection with the Conversion of the Bonds to the Weekly Rate and the reoffering thereof were passed upon by Stoll Keenon Ogden, Bond Counsel. Bond Counsel has in the past, and may in the future, act as counsel to the Company with respect to certain matters. Certain legal matters were passed upon for the Issuer by its County Attorney. Certain legal matters were passed upon for the Company by Jones Day, Chicago, Illinois, and John R. McCall, Esq., former Executive Vice President, General Counsel, Corporate Secretary and Chief Compliance Officer for the Company.

### Continuing Disclosure

Because the Bonds are special and limited obligations of the Issuer, the Issuer is not an “obligated person” for purposes of Rule 15c2-12 (the “Rule”) promulgated by the SEC under the Exchange Act, and does not have any continuing obligations thereunder. Accordingly, the Issuer will not provide any continuing disclosure information with respect to the Bonds or the Issuer.

#### 2006 Series B Bonds

In order to enable the Remarketing Agent to comply with the requirements of the Rule, the Company has covenanted in a continuing disclosure undertaking agreement delivered to the Trustee for the benefit of the holders of the 2006 Series B Bonds (the “Continuing Disclosure Agreement”) to provide certain continuing disclosure for the benefit of the holders of such Bonds. Under its Continuing Disclosure Agreement, the Company has covenanted to take the following actions:

(a) The Company will provide to each nationally recognized municipal securities information repository (“NRMSIR”), recognized by the SEC pursuant to the Rule, and the state information depository, if any, of the Commonwealth of Kentucky (a “SID” and, together with the NRMSIR, a “Repository”) recognized by the SEC (1) annual financial information of the type set forth in Appendix A to this Reoffering Circular (including any information incorporated by reference therein) and (2) audited financial statements prepared in accordance with generally accepted accounting principles, in each case not later than 120 days after the end of the Company’s fiscal year.

(b) The Company will file in a timely manner with each NRMSIR or the Municipal Securities Rulemaking Board, and with the SID, if any, notice of the occurrence of any of the following events (if applicable) with respect to the 2006 Series B Bonds, if material: (i) principal and interest payment delinquencies; (ii) non-payment related defaults; (iii) any unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancement facilities reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; (vi) adverse tax opinions or events affecting the tax-exempt status of the 2006 Series B Bonds; (vii) modifications to rights of the holders of the 2006 Series B Bonds; (viii) the giving of notice of optional or unscheduled redemption of any 2006 Series B Bonds; (ix) defeasance of the 2006 Series B Bonds or any portion thereof; (x) release, substitution, or sale of property securing repayment of the 2006 Series B Bonds; and (xi) rating changes with respect to the 2006 Series B Bonds or the Company or any obligated person, within the meaning of the Rule.

(c) The Company will file in a timely manner with each Repository notice of a failure by the Company to file any of the notices or reports referred to in paragraphs (a) and (b) above by the due date.

The Company may amend its Continuing Disclosure Agreement (and the Trustee shall agree to any amendment so requested by the Company that does not change the duties of the Trustee thereunder) or waive any provision thereof, but only with a change in circumstances that

arises from a change in legal requirements, change in law, or change in the nature or status of the Company with respect to the 2006 Series B Bonds or the type of business conducted by the Company; provided that the undertaking, as amended or following such waiver, would have complied with the requirements of the Rule on the date of issuance of the 2006 Series B Bonds, after taking into account any amendments to the Rule as well as any change in circumstances, and the amendment or waiver does not materially impair the interests of the holders of the 2006 Series B Bonds to which such undertaking relates, in the opinion of the Trustee or counsel expert in federal securities laws acceptable to both the Company and the Trustee, or is approved by the Beneficial Owners of a majority in aggregate principal amount of the outstanding 2006 Series B Bonds. The Company acknowledges that its undertakings pursuant to the Rule described under this heading are intended to be for the benefit for the holders of the 2006 Series B Bonds and shall be enforceable by the holders of those 2006 Series B Bonds or by the Trustee on behalf of such holders. Any breach by the Company of these undertakings pursuant to the Rule will not constitute an event of default under the Indentures, the Loan Agreements or the 2006 Series B Bonds.

### **2008 Series A Bonds**

The Rule generally requires that “obligated persons” such as the Company agree to provide (i) continuing disclosure on an annual basis of certain financial information and operating data and (ii) notices of certain specified events that could affect the credit underlying the payment obligations of the securities. However, offerings of securities that are subject purchase by the issuer on the demand of the holder, such as will be the case with respect to the 2008 Series A Bonds while bearing interest in a Daily Rate Period or a Weekly Rate Period, or while bearing interest in a Flexible Rate Period of 270 days or less, are exempt from these requirements. If the 2008 Series A Bonds are remarketed in a mode other than the Daily Rate Period, the Weekly Rate Period or the Flexible Rate Period, the Company may in the future become subject to these continuing disclosure obligations of the Rule with respect to such 2008 Series A Bonds.

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This Reoffering Circular has been duly approved, executed and delivered by the Company.

KENTUCKY UTILITIES COMPANY

By: /s/ Daniel K. Arbough  
Daniel K. Arbough  
Treasurer

## Appendix A

**Kentucky Utilities Company**

Kentucky Utilities Company (“KU”), incorporated in Kentucky in 1912 and in Virginia in 1991, is a regulated utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. As of December 31, 2012, KU provides electric service to approximately 510,000 customers in 77 counties in central, southeastern and western Kentucky, to approximately 29,000 customers in 5 counties in southwestern Virginia and to less than 10 customers in Tennessee. Our service area covers approximately 4,800 noncontiguous square miles. Approximately 95% of the electricity generated by us is produced by our coal-fired electric generating stations. The remainder is generated by natural gas and oil fueled combustion turbines and a hydroelectric power plant. In Virginia, we operate under the name Old Dominion Power Company. We also sell wholesale electric energy to 12 municipalities in Kentucky under load following contracts.

KU is a wholly-owned subsidiary of LG&E and KU Energy LLC. On November 1, 2010, PPL Corporation purchased all of the interests of LG&E and KU Energy LLC and, indirectly, all of the stock of the Company from E.ON AG, making KU an indirect wholly-owned subsidiary of PPL Corporation. KU’s affiliate, Louisville Gas and Electric Company (“LG&E”), is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy and natural gas in Kentucky.

Additional information regarding KU, including audited financial statements, is available in the documents listed under the caption “Documents Incorporated by Reference,” which documents are incorporated by reference herein.

**Available Information**

KU is subject to the information requirements of the Securities Exchange Act of 1934 and, accordingly, files reports, proxy statements and other information with the Securities and Exchange Commission (“SEC”). Such reports, proxy statements and other information, as well as reports and other information regarding PPL, on file can be inspected and copied at the public reference facilities of the SEC, currently at Room 100 F Street, N.E., Room 1580, Washington, DC 20549; or from the SEC’s Web Site (<http://www.sec.gov>). Please call the SEC at 1-800-SEC-0330 for further information on the public reference room.

**Documents Incorporated By Reference**

The following documents, as filed by KU with the SEC, are incorporated herein by reference:

1. Form 10-K Annual Report of KU for the year ended December 31, 2012; and
2. Form 10-Q Quarterly Report of KU for the quarter ended March 31, 2013.

All documents filed by KU with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 subsequent to the date of this Supplement and prior to the termination of the offering of the Bonds shall be deemed to be incorporated by reference in this Appendix and to be made a part hereof from their respective dates of filing. Any statement contained in a document incorporated or deemed to be incorporated by reference in this Reoffering Circular shall be deemed to be modified or superseded for purposes of this Reoffering Circular to the extent that a statement contained in this Reoffering Circular or in any other subsequently filed document which also is or is deemed to be incorporated by reference in this Reoffering Circular modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Reoffering Circular.

**KU hereby undertakes to provide without charge to each person (including any beneficial owner) to whom a copy of this Reoffering Circular has been delivered, on the written or oral request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated in this Official Statement by reference, other than certain exhibits to such documents. Requests for such copies should be directed to Dan Arbough, Kentucky Utilities Company, One Quality Street, Lexington, Kentucky 40507, telephone: (859) 255-2100.**

**APPENDIX B**

**Opinions of Bond Counsel and  
Conversion Opinions of Bond Counsel**

**APPENDIX B-1**

**Opinion of Bond Counsel dated February 23, 2007 relating to the 2006 Series B Bonds**



S T O L L · K E E N O N · O G D E N  
P L L C

2000 PNC PLAZA  
500 WEST JEFFERSON STREET  
LOUISVILLE, KENTUCKY 40202-2828  
502-333-6000  
FAX: 502-333-6099  
WWW.SKOFIRM.COM

February 23, 2007

Re: \$54,000,000 County of Carroll, Kentucky, Environmental Facilities Revenue Refunding Bonds, 2006 Series B (Kentucky Utilities Company Project)

We hereby certify that we have examined certified copies of the proceedings of record of the County of Carroll, Kentucky (the "County"), acting by and through its Fiscal Court as its duly authorized governing body, preliminary to and in connection with the issuance by the County of its Environmental Facilities Revenue Refunding Bonds, 2006 Series B (Kentucky Utilities Company Project), dated their date of issuance, in the aggregate principal amount of \$54,000,000 (the "Bonds"). The Bonds are issued under the provisions of Sections 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes (the "Act"), for the purpose of providing funds which will be used, with other funds provided by Kentucky Utilities Company (the "Company") for the current refunding of \$54,000,000 aggregate principal amount of the County's Collateralized Solid Waste Disposal Facilities Revenue Bonds (Kentucky Utilities Company Project) 1994 Series A, dated November 23, 1994 (the "Prior Bonds"), which were issued for the purpose of financing a portion of the costs of construction, acquisition, installation and equipping of certain solid waste disposal facilities to serve the Ghent Generating Station of the Company in Carroll County, Kentucky (the "Project") in order to provide for the collection, storage, treatment, processing and final disposal of solid wastes, as provided by the Act.

The Bonds mature on October 1, 2034 and bear interest initially at the Dutch Auction Rate, as defined in the Indenture, hereinafter described, subject to change as provided in such Indenture. The Bonds will be subject to optional and mandatory redemption prior to maturity at the times, in the manner and upon the terms set forth in the Bonds. From such examination of the proceedings of the Fiscal Court of the County referred to above and from an examination of the Act, we are of the opinion that the County is duly authorized and empowered to issue the Bonds under the laws of the Commonwealth of Kentucky now in force.

We have examined an executed counterpart of a certain Loan Agreement, dated as of October 1, 2006 (the "Loan Agreement"), between the County and the Company and a certified copy of the proceedings of record of the Fiscal Court of the County preliminary to and in connection with the execution and delivery of the Loan Agreement, pursuant to which the County has agreed to issue the Bonds and to lend the proceeds thereof to the Company to provide funds to pay and discharge, with other funds provided by the Company, the Prior Bonds.

February 23, 2007

Page 2

The Company has agreed to make Loan payments to the Trustee at times and in amounts fully adequate to pay maturing principal of, interest on and redemption premium, if any, on the Bonds as same become due and payable. From such examination, we are of the opinion that such proceedings of the Fiscal Court of the County show lawful authority for the execution and delivery of the Loan Agreement; that the Loan Agreement has been duly authorized, executed and delivered by the County; and that the Loan Agreement is a legal, valid and binding obligation of the County, enforceable in accordance with its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought.

We have also examined an executed counterpart of a certain Indenture of Trust, dated as of October 1, 2006 (the "Indenture"), by and between the County and Deutsche Bank Trust Company Americas, as trustee (the "Trustee"), securing the Bonds and setting forth the covenants and undertakings of the County in connection with the Bonds and a certified copy of the proceedings of record of the Fiscal Court of the County preliminary to and in connection with the execution and delivery of the Indenture. Pursuant to the Indenture, certain of the County's rights under the Loan Agreement, including the right to receive payments thereunder, and all moneys and securities held by the Trustee in accordance with the Indenture (except moneys and securities in the Rebate Fund created thereby) have been assigned to the Trustee, as security for the holders of the Bonds. From such examination, we are of the opinion that such proceedings of the Fiscal Court of the County show lawful authority for the execution and delivery of the Indenture; that the Indenture has been duly authorized, executed and delivered by the County; and that the Indenture is a legal, valid and binding obligation upon the parties thereto according to its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought.

In our opinion the Bonds have been validly authorized, executed and issued in accordance with the laws of the Commonwealth of Kentucky now in full force and effect, and constitute legal, valid and binding special obligations of the County entitled to the benefit of the security provided by the Indenture and enforceable in accordance with their terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought. The Bonds are payable by the County solely and only from payments and other amounts derived from the Loan Agreement and as provided in the Indenture.

In our opinion, under existing laws, including current statutes, regulations, administrative rulings and official interpretations by the Internal Revenue Service, subject to the exceptions and qualifications contained in the succeeding paragraphs, interest on the Bonds is excluded from the gross income of the recipients thereof for federal income tax purposes, except that no opinion is expressed regarding such exclusion from gross income with respect to any Bond during any period in which it is held by a "substantial user" of the Project or a "related person," as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Bonds is a separate item of tax preference in determining alternative

February 23, 2007

Page 3

minimum taxable income for individuals and corporations under the Code. In arriving at this opinion, we have relied upon representations, factual statements and certifications of the Company with respect to certain material facts which are solely within the Company's knowledge in reaching our conclusion, inter alia, that not less than 95% of the net proceeds of the Prior Bonds were used to finance solid waste disposal facilities qualified for financing under Section 142(a)(6) of the Code and the Act. Further, in arriving at the opinion set forth in this paragraph as to the exclusion from gross income of interest on the Bonds, we have assumed and this opinion is conditioned on, the accuracy of and continuing compliance by the Company and the County with representations and covenants set forth in the Loan Agreement and the Indenture which are intended to assure compliance with certain tax-exempt interest provisions of the Code. Such representations and covenants must be accurate and must be complied with subsequent to the issuance of the Bonds in order that interest on the Bonds be excluded from gross income for federal income tax purposes. Failure to comply with certain of such representations and covenants in respect of the Bonds subsequent to the issuance of the Bonds could cause the interest thereon to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. We express no opinion (i) regarding the exclusion of interest on any Bond from gross income for federal income tax purposes on or after the date on which any change, including any interest rate conversion, permitted by the documents (other than with approval of this firm) is taken which adversely affects the tax treatment of the Bonds or (ii) as to the treatment for purposes of federal income taxation of interest on the Bonds upon a Determination of Taxability. We are further of the opinion that interest on the Bonds is excluded from gross income of the recipients thereof for Kentucky income tax purposes and that the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and all political subdivisions thereof.

Our opinion as to the exclusion of interest on the Bonds from gross income for federal income tax purposes and federal tax treatment of interest on the Bonds is further subject to the following exceptions and qualifications:

(a) The Code provides for a "branch profits tax" which subjects to tax, at a rate of 30%, the effectively connected earnings and profits of a foreign corporation which engages in a United States trade or business. Interest on the Bonds would be includable in the amount of effectively connected earnings and profits and thus would increase the branch profits tax liability.

(b) The Code also provides that passive investment income, including interest on the Bonds, may be subject to taxation for any S corporation with Subchapter C earnings and profits at the close of its taxable year if greater than 25% of its gross receipts is passive investment income.

Except as stated above, we express no opinion as to any federal or Kentucky tax consequences resulting from the receipt of interest on the Bonds.

Holders of the Bonds should be aware that the ownership of the Bonds may result in collateral federal income tax consequences. For instance, the Code provides that, for taxable years beginning after December 31, 1986, property and casualty insurance companies will be



February 23, 2007

Page 4

required to reduce their loss reserve deductions by 15% of the tax-exempt interest received on certain obligations, such as the Bonds, acquired after August 7, 1986. (For purposes of the immediately preceding sentence, a portion of dividends paid to an affiliated insurance company may be treated as tax-exempt interest.) The Code further provides for the disallowance of any deduction for interest expenses incurred by banks and certain other financial institutions allocable to carrying certain tax-exempt obligations, such as the Bonds, acquired after August 7, 1986. The Code also provides that, with respect to taxpayers other than such financial institutions, such taxpayers will be unable to deduct any portion of the interest expenses incurred or continued to purchase or carry the Bonds. The Code also provides, with respect to individuals, that interest on tax-exempt obligations, including the Bonds, is included in modified adjusted gross income for purposes of determining the taxability of social security and railroad retirement benefits. Furthermore, the earned income credit is not allowed for individuals with an aggregate amount of disqualified income within the meaning of section 32 of the Code, which exceeds \$2,200. Interest on the Bonds will be taken into account in the calculation of disqualified income.

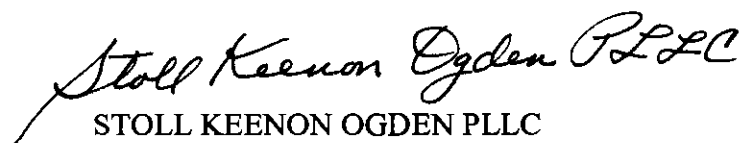
We have received opinions of John R. McCall, Esq., General Counsel of the Company and Jones Day, Chicago, Illinois, counsel to the Company, of even date herewith. In rendering this opinion, we have relied upon said opinions with respect to the matters therein. We have also received an opinion of even date herewith of Hon. James C. Monk, County Attorney of the County and relied upon said opinion with respect to the matters therein. Said opinions are in forms satisfactory to us as to both scope and content.

We express no opinion as to the title to, the description of, or the existence or priority of any liens, charges or encumbrances on, the Project.

In rendering the foregoing opinions, we are passing upon only those matters specifically set forth in such opinions and are not passing upon the investment quality of the Bonds or the accuracy or completeness of any statements made in connection with any offer or sale thereof. The opinions herein are expressed as of the date hereof and we assume no obligation to supplement or update such opinions to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

We are members of the Bar of the Commonwealth of Kentucky and do not purport to be experts on the laws of any jurisdiction other than the Commonwealth of Kentucky and the United States of America, and we express no opinion as to the laws of any jurisdiction other than those specified.

Respectfully submitted,

  
STOLL KEENON OGDEN PLLC

**APPENDIX B-2**

**Opinion of Bond Counsel dated October 17, 2008 relating to the 2008 Series A Bonds**



S T O L L · K E E N O N · O G D E N  
P L L C

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502-333-6000  
FAX: 502-333-6099  
WWW.SKOFIRM.COM

October 17, 2008

Re: \$77,947,405 "County of Carroll, Kentucky, Environmental Facilities Revenue Bonds, 2008 Series A (Kentucky Utilities Company Project)"

We hereby certify that we have examined certified copies of the proceedings of record of the County of Carroll, Kentucky (the "County"), acting by and through its Fiscal Court as its duly authorized governing body, preliminary to and in connection with the issuance by the County of its Environmental Facilities Revenue Bonds, 2008 Series A (Kentucky Utilities Company Project), dated their date of issuance, in the aggregate principal amount of \$77,947,405 (the "Bonds"). The Bonds are issued under the provisions of Sections 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes (the "Act"), for the purpose of providing funds which will be used, with other funds provided by Kentucky Utilities Company (the "Company") for the purposes of (i) financing a portion of the costs of construction, acquisition, installation and equipping of certain solid waste disposal facilities to serve the Ghent Generating Station of the Company in Carroll County, Kentucky (the "Construction Project") in order to provide for the collection, storage, treatment and final disposal of solid wastes, as provided by the Act in the principal amount of \$18,026,265, and (ii) currently refunding (a) \$13,266,950 outstanding principal amount of County of Carroll, Kentucky, Environmental Facilities Revenue Bonds, 2005 Series A (Kentucky Utilities Company Project) (the "2005 Series A Bonds"), (b) \$13,266,950 outstanding principal amount of County of Carroll, Kentucky, Environmental Facilities Revenue Bonds, 2005 Series B (Kentucky Utilities Company Project) (the "2005 Series B Bonds"), (c) \$16,693,620 outstanding principal amount of County of Carroll, Kentucky, Environmental Facilities Revenue Bonds, 2006 Series A (Kentucky Utilities Company Project) (the "2006 Series A Bonds") and (d) \$16,693,620 outstanding principal amount of County of Carroll, Kentucky, Environmental Facilities Revenue Bonds, 2006 Series C (Kentucky Utilities Company Project) (the "2006 Series C Bonds" and, together with the 2005 Series A Bonds, the 2005 Series B Bonds and the 2006 Series A Bonds, the "Refunded Bonds"), which were issued for the purpose of financing all or a portion of the qualified costs of acquisition, construction, installation and equipping of certain solid waste disposal facilities to serve the Ghent Generating Station of Company in Carroll County, Kentucky (the "Refunding Project" and, together with the Construction Project, the "Project"), as provided by the Act.

October 17, 2008

Page 2

The Bonds mature on February 1, 2032, and bear interest initially at the Flexible Rate, as defined in the Indenture, hereinafter described, subject to change as provided in such Indenture. The Bonds will be subject to optional and mandatory redemption prior to maturity at the times, in the manner and upon the terms set forth in the Bonds. From such examination of the proceedings of the Fiscal Court of the County referred to above and from an examination of the Act, we are of the opinion that the County is duly authorized and empowered to issue the Bonds under the laws of the Commonwealth of Kentucky now in force.

We have examined an executed counterpart of a certain Loan Agreement, dated as of August 1, 2008 (the "Loan Agreement"), between the County and the Company and a certified copy of the proceedings of record of the Fiscal Court of the County preliminary to and in connection with the execution and delivery of the Loan Agreement, pursuant to which the County has agreed to issue the Bonds and to lend the proceeds thereof to the Company to provide funds to finance a portion of the costs of the acquisition, construction, installation and equipping of the Construction Project and to pay and discharge with other funds provided by the Company, the Refunded Bonds. The Company has agreed to make Loan payments to the Trustee at times and in amounts fully adequate to pay maturing principal of, interest on and redemption premium, if any, on the Bonds as same become due and payable. From such examination, we are of the opinion that such proceedings of the Fiscal Court of the County show lawful authority for the execution and delivery of the Loan Agreement; that the Loan Agreement has been duly authorized, executed and delivered by the County; and that the Loan Agreement is a legal, valid and binding obligation of the County, enforceable in accordance with its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought.

We have also examined an executed counterpart of a certain Indenture of Trust, dated as of August 1, 2008 (the "Indenture"), by and between the County and Deutsche Bank Trust Company Americas, as trustee (the "Trustee"), securing the Bonds and setting forth the covenants and undertakings of the County in connection with the Bonds and a certified copy of the proceedings of record of the Fiscal Court of the County preliminary to and in connection with the execution and delivery of the Indenture. Pursuant to the Indenture, certain of the County's rights under the Loan Agreement, including the right to receive payments thereunder, and all moneys and securities held by the Trustee in accordance with the Indenture (except moneys and securities in the Rebate Fund created thereby) have been assigned to the Trustee, as security for the holders of the Bonds. From such examination, we are of the opinion that such proceedings of the Fiscal Court of the County show lawful authority for the execution and delivery of the Indenture; that the Indenture has been duly authorized, executed and delivered by the County; and that the Indenture is a legal, valid and binding obligation upon the parties thereto according to its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought.

October 17, 2008

Page 3

In our opinion the Bonds have been validly authorized, executed and issued in accordance with the laws of the Commonwealth of Kentucky now in full force and effect, and constitute legal, valid and binding special obligations of the County entitled to the benefit of the security provided by the Indenture and enforceable in accordance with their terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally, including equitable provisions where equitable remedies are sought. The Bonds are payable by the County solely and only from payments and other amounts derived from the Loan Agreement and as provided in the Indenture.

In our opinion, under existing laws, including current statutes, regulations, administrative rulings and official interpretations by the Internal Revenue Service, subject to the exceptions and qualifications contained in the succeeding paragraphs, (i) interest on the Bonds is excluded from the gross income of the recipients thereof for federal income tax purposes, except that no opinion is expressed regarding such exclusion from gross income with respect to any Bond during any period in which it is held by a "substantial user" of the Project or a "related person," as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code") and (ii) interest on the Bonds is a separate item of tax preference in determining alternative minimum taxable income for individuals and corporations under the Code. In arriving at this opinion, we have relied upon representations, factual statements and certifications of the Company with respect to certain material facts which are solely within the Company's knowledge in reaching our conclusion, inter alia, that not less than 95% of the proceeds of the Bonds will be used to finance or refinance solid waste disposal facilities qualified for financing under Section 142(a)(6) of the Code and the Act. Further, in arriving at the opinion set forth in this paragraph as to the exclusion from gross income of interest on the Bonds, we have assumed and this opinion is conditioned on, the accuracy of and continuing compliance by the Company and the County with representations and covenants set forth in the Loan Agreement and the Indenture which are intended to assure compliance with certain tax-exempt interest provisions of the Code. Such representations and covenants must be accurate and must be complied with subsequent to the issuance of the Bonds in order that interest on the Bonds be excluded from gross income for federal income tax purposes. Failure to comply with certain of such representations and covenants in respect of the Bonds subsequent to the issuance of the Bonds could cause the interest thereon to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. We express no opinion (i) regarding the exclusion of interest on any Bond from gross income for federal income tax purposes on or after the date on which any change, including any interest rate conversion, permitted by the documents (other than with approval of this firm) is taken which adversely affects the tax treatment of the Bonds or (ii) as to the treatment for purposes of federal income taxation of interest on the Bonds upon a Determination of Taxability. We are further of the opinion that interest on the Bonds is excluded from gross income of the recipients thereof for Kentucky income tax purposes and that the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and all political subdivisions thereof.

October 17, 2008

Page 4

Our opinion as to the exclusion of interest on the Bonds from gross income for federal income tax purposes and federal tax treatment of interest on the Bonds is further subject to the following exceptions and qualifications:

(a) The Code provides for a "branch profits tax" which subjects to tax, at a rate of 30%, the effectively connected earnings and profits of a foreign corporation which engages in a United States trade or business. Interest on the Bonds would be includable in the amount of effectively connected earnings and profits and thus would increase the branch profits tax liability.

(b) The Code also provides that passive investment income, including interest on the Bonds, may be subject to taxation for any S corporation with Subchapter C earnings and profits at the close of its taxable year if greater than 25% of its gross receipts is passive investment income.

Except as stated above, we express no opinion as to any federal or Kentucky tax consequences resulting from the receipt of interest on the Bonds.

Holders of the Bonds should be aware that the ownership of the Bonds may result in collateral federal income tax consequences. For instance, the Code provides that, for taxable years beginning after December 31, 1986, property and casualty insurance companies will be required to reduce their loss reserve deductions by 15% of the tax-exempt interest received on certain obligations, such as the Bonds, acquired after August 7, 1986. (For purposes of the immediately preceding sentence, a portion of dividends paid to an affiliated insurance company may be treated as tax-exempt interest.) The Code further provides for the disallowance of any deduction for interest expenses incurred by banks and certain other financial institutions allocable to carrying certain tax-exempt obligations, such as the Bonds, acquired after August 7, 1986. The Code also provides that, with respect to taxpayers other than such financial institutions, such taxpayers will be unable to deduct any portion of the interest expenses incurred or continued to purchase or carry the Bonds. The Code also provides, with respect to individuals, that interest on tax-exempt obligations, including the Bonds, is included in modified adjusted gross income for purposes of determining the taxability of social security and railroad retirement benefits. Furthermore, the earned income credit is not allowed for individuals with an aggregate amount of disqualified income within the meaning of Section 32 of the Code, which exceeds \$2,200. Interest on the Bonds will be taken into account in the calculation of disqualified income.

We have received opinions of John R. McCall, Esq., General Counsel of the Company, and Jones Day, Chicago, Illinois, counsel to the Company, of even date herewith. In rendering this opinion, we have relied upon said opinions with respect to the matters therein. We have also received an opinion of even date herewith of Hon. James C. Monk, County Attorney of the County and relied upon said opinion with respect to the matters therein. Said opinions are in forms satisfactory to us as to both scope and content.

October 17, 2008

Page 5

We express no opinion as to the title to, the description of, or the existence or priority of any liens, charges or encumbrances on, the Project.

In rendering the foregoing opinions, we are passing upon only those matters specifically set forth in such opinions and are not passing upon the investment quality of the Bonds or the accuracy or completeness of any statements made in connection with any offer or sale thereof. The opinions herein are expressed as of the date hereof and we assume no obligation to supplement or update such opinions to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

We are members of the Bar of the Commonwealth of Kentucky and do not purport to be experts on the laws of any jurisdiction other than the Commonwealth of Kentucky and the United States of America, and we express no opinion as to the laws of any jurisdiction other than those specified.

Respectfully submitted,

  
STOLL KEENON OGDEN PLLC

APPENDIX B-3

**(Conversion Opinion of Bond Counsel)  
(2006 Series B Bonds)**

December 19, 2008

County of Carroll, Kentucky  
Carrollton, Kentucky 41008

Deutsche Bank Trust Company Americas,  
as Trustee  
Summit, New Jersey 07901

Re: Conversion to Weekly Rate Period of \$54,000,000 “County of Carroll, Kentucky, Environmental Facilities Revenue Refunding Bonds, 2006 Series B (Kentucky Utilities Company Project)”

Ladies and Gentlemen:

This opinion is being furnished in accordance with the requirements of the Indenture of Trust, dated as of October 1, 2006 (the “Indenture”), between the County of Carroll, Kentucky (the “Issuer”) and Deutsche Bank Trust Company Americas, as Trustee (the “Trustee”), pertaining to \$54,000,000 principal amount of County of Carroll, Kentucky, Environmental Facilities Revenue Refunding Bonds, 2006 Series B (Kentucky Utilities Company Project), dated February 23, 2007 (the “Bonds”), in order to satisfy certain requirements of Section 2.02(e)(i) of the Indenture. Pursuant to Section 2.02(e)(i) of the Indenture, the interest rate on the Bonds is being converted from a Dutch Auction Rate to a Weekly Rate effective on December 19, 2008, the Conversion Date. The terms used herein denoted by initial capitals and not otherwise defined shall have the meanings specified in the Indenture.

We have examined the law and such documents and matters as we have deemed necessary to provide this opinion. As to questions of fact material to the opinions expressed herein, we have relied upon the provisions of the Indenture and related documents, and upon representations made to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, as of the date hereof, we are of the opinion that the conversion of the interest rate on the Bonds as described herein (a) is authorized or permitted by the Act and the Indenture and (b) will not adversely affect the validity of the Bonds or any exclusion from gross income for federal income tax purposes to which interest on the Bonds would otherwise be entitled. Interest on the Bonds is not and will not be excluded from gross income during any period when the Bonds are held by the Company or a “related person” of the Company as defined in Section 147(a) of the Internal Revenue Code of 1986, as amended.

In rendering this opinion, we assume, without verifying, that the Issuer and the Company have complied and will comply with all covenants contained in the Indenture, the Loan Agreement between the Issuer and the Company, dated October 1, 2006, and other documents relating to the Bonds. We rendered our approving opinion at the time of the issuance of the



Bonds relating to, among other things, the validity of the Bonds and the exclusion from federal income taxation of interest on the Bonds. We have not been requested to update or continue such opinion and have not undertaken to do so. Accordingly, we do not express any opinion with respect to the Bonds except as set forth above.

Our opinion represents our legal judgment based upon our review of the law and the facts that we deem relevant to render such opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to review or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

We express no opinion herein as to the investment quality of the Bonds or the adequacy, accuracy or completeness of any information furnished to any person in connection with any offer or sale of the Bonds.

Respectfully submitted,

STOLL KEENON OGDEN PLLC

APPENDIX B-4

**(Conversion Opinion of Bond Counsel)  
(2008 Series A Bonds)**

December 19, 2008

County of Carroll, Kentucky  
Carrollton, Kentucky 41008

Deutsche Bank Trust Company Americas,  
as Trustee  
Summit, New Jersey 07901

Re: Conversion to Weekly Rate Period of \$77,947,405 “County of Carroll, Kentucky, Environmental Facilities Revenue Bonds, 2008 Series A (Kentucky Utilities Company Project)”

Ladies and Gentlemen:

This opinion is being furnished in accordance with the requirements of the Indenture of Trust, dated as of August 1, 2008 (the “Indenture”), between the County of Carroll, Kentucky (the “Issuer”) and Deutsche Bank Trust Company Americas, as Trustee (the “Trustee”), pertaining to \$77,947,405 principal amount of County of Carroll, Kentucky, Environmental Facilities Revenue Bonds, 2008 Series A (Kentucky Utilities Company Project), dated October 17, 2008 (the “Bonds”), in order to satisfy certain requirements of Section 2.02(e)(i) of the Indenture. Pursuant to Section 2.02(e)(i) of the Indenture, the interest rate on the Bonds is being converted from a Flexible Rate to a Weekly Rate effective on December 19, 2008, the Conversion Date. The terms used herein denoted by initial capitals and not otherwise defined shall have the meanings specified in the Indenture.

We have examined the law and such documents and matters as we have deemed necessary to provide this opinion. As to questions of fact material to the opinions expressed herein, we have relied upon the provisions of the Indenture and related documents, and upon representations made to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, as of the date hereof, we are of the opinion that the conversion of the interest rate on the Bonds as described herein (a) is authorized or permitted by the Act and the Indenture and (b) will not adversely affect the validity of the Bonds or any exclusion from gross income for federal income tax purposes to which interest on the Bonds would otherwise be entitled. Interest on the Bonds is not and will not be excluded from gross income during any period when the Bonds are held by the Company or a “related person” of the Company as defined in Section 147(a) of the Internal Revenue Code of 1986, as amended.

In rendering this opinion, we assume, without verifying, that the Issuer and the Company have complied and will comply with all covenants contained in the Indenture, the Loan Agreement between the Issuer and the Company, dated August 1, 2008, and other documents relating to the Bonds. We rendered our approving opinion at the time of the issuance of the

Bonds relating to, among other things, the validity of the Bonds and the exclusion from federal income taxation of interest on the Bonds. We have not been requested to update or continue such opinion and have not undertaken to do so. Accordingly, we do not express any opinion with respect to the Bonds except as set forth above.

Our opinion represents our legal judgment based upon our review of the law and the facts that we deem relevant to render such opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to review or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

We express no opinion herein as to the investment quality of the Bonds or the adequacy, accuracy or completeness of any information furnished to any person in connection with any offer or sale of the Bonds.

Respectfully submitted,

STOLL KEENON OGDEN PLLC

## APPENDIX C

**Sumitomo Mitsui Banking Corporation, New York Branch**

*The information under this heading has been provided solely by Sumitomo Mitsui Banking Corporation, New York Branch and is believed to be reliable. This information has not been verified independently by the Company, the Issuer or the Remarketing Agent. The Company, the Issuer and the Remarketing Agent make no representation whatsoever as to the accuracy, adequacy or completeness of such information.*

**Sumitomo Mitsui Banking Corporation**

Sumitomo Mitsui Banking Corporation (*Kabushiki Kaisha Mitsui Sumitomo Ginko*) (“SMBC”) is a joint stock corporation with limited liability (*Kabushiki Kaisha*) under the laws of Japan. The registered head office of SMBC is located at 1-2, Yurakucho 1-chome, Chiyoda-ku, Tokyo, Japan.

SMBC was established in April 2001 through the merger of two leading banks, The Sakura Bank, Limited and The Sumitomo Bank, Limited. In December 2002, Sumitomo Mitsui Financial Group, Inc. (“SMFG”) was established through a stock transfer as a holding company under which SMBC became a wholly owned subsidiary. SMFG reported ¥ 141,874,426 million in consolidated total assets as of March 31, 2012.

SMBC is one of the world’s leading commercial banks and provides an extensive range of banking services to its customers in Japan and overseas. In Japan, SMBC accepts deposits, makes loans and extends guarantees to corporations, individuals, governments and governmental entities. It also offers financing solutions such as syndicated lending, structured finance and project finance. SMBC also underwrites and deals in bonds issued by or under the guarantee of the Japanese government and local government authorities, and acts in various administrative and advisory capacities for certain types of corporate and government bonds. Internationally, SMBC operates through a network of branches, representative offices, subsidiaries and affiliates to provide many financing products including syndicated lending and project finance.

The New York Branch of SMBC is licensed by the State of New York Banking Department to conduct branch banking business at 277 Park Avenue, New York, New York, and is subject to examination by the State of New York Banking Department and the Federal Reserve Bank of New York.

### **Financial and Other Information**

Audited consolidated financial statements for SMFG and its consolidated subsidiaries for the fiscal years ended March 31, 2012, as well as certain unaudited financial information for SMFG and SMBC for the fiscal period ended through December 31, 2012, as well as other corporate data, financial information and analyses are available in English on the website of the Parent at [www.smfg.co.jp/english](http://www.smfg.co.jp/english).

The information herein has been obtained from SMBC, which is solely responsible for its content. The delivery of the Reoffering Circular shall not create any implication that there has been no change in the affairs of SMBC since the date hereof, or that the information contained or referred herein is correct as of any time subsequent to its date.





*Subject to the conditions and exceptions set forth under the heading "Tax Treatment," Bond Counsel is of the opinion that, under current law, interest on the Bonds offered hereby will be excludable from the gross income of the recipients thereof for federal income tax purposes, except that no opinion will be expressed regarding such exclusion from gross income with respect to any Bond during any period in which it is held by a "substantial user" or a "related person" of the Project as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Bonds will not be an item of tax preference in determining alternative minimum taxable income for individuals and corporations under the Code. Such interest may be subject to certain federal income taxes imposed on certain corporations, including imposition of the branch profits tax on a portion of such interest. Bond Counsel is further of the opinion that interest on the Bonds will be excludable from the gross income of the recipients thereof for Kentucky income tax purposes and that, under current law, the principal of the Bonds will be exempt from ad valorem taxes in Kentucky. Issuance of the Bonds is subject to receipt of a favorable tax opinion of Bond Counsel as of the date of delivery of the Bonds. See "Tax Treatment" herein.*

**\$96,000,000**

**COUNTY OF CARROLL, KENTUCKY**  
**Pollution Control Revenue Refunding Bonds**  
**2016 Series A**  
**(Kentucky Utilities Company Project)**

**Dated:** Date of original delivery

**Due:** September 1, 2042

**Long Term Rate Period:** 3 years

**Mandatory Purchase Date:** September 1, 2019

**Interest Payment Dates:** March 1 and September 1

**Interest Rate:** 1.05%

The County of Carroll, Kentucky, Pollution Control Revenue Refunding Bonds, 2016 Series A (Kentucky Utilities Company Project) (the "Bonds") will be special and limited obligations of the County of Carroll, Kentucky (the "Issuer"), payable by the Issuer solely from and secured by payments to be received by the Issuer pursuant to a Loan Agreement with Kentucky Utilities Company (the "Company"), except as payable from proceeds of such Bonds or investment earnings thereon. The Bonds will not constitute general obligations of the Issuer or a charge against the general credit or taxing powers thereof or of the Commonwealth of Kentucky or any other political subdivision of Kentucky.

Principal of, and interest on, the Bonds are further secured by the delivery to U.S. Bank National Association, as Trustee, of First Mortgage Bonds of

**KENTUCKY UTILITIES COMPANY**

From and after the date of the issuance and delivery of the Bonds, the Bonds will bear interest at the Long Term Rate of 1.05% per annum from the date of issuance to and including August 31, 2019, and will be subject to mandatory purchase following the initial Long Term Rate Period on September 1, 2019 (the "Mandatory Purchase Date"). Interest on the Bonds will be payable on each March 1 and September 1, commencing March 1, 2017. The interest rate period, interest rate and interest rate mode will be subject to change under certain conditions, as described in this Official Statement. Prior to the Mandatory Purchase Date, the Bonds will not be subject to optional redemption, but will be subject to extraordinary optional redemption and mandatory redemption following a determination of taxability prior to maturity, as described in this Official Statement.

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**PRICE: 100%**

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The Bonds, when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository. Purchases of beneficial ownership interests in the Bonds will be made in book-entry only form in denominations of \$250,000 and multiples thereof. Purchasers will not receive certificates representing their beneficial interests in the Bonds. See the information contained under the heading "Summary of the Bonds — Book-Entry-Only System" in this Official Statement. The principal or redemption price of and interest on the Bonds will be paid by U.S. Bank National Association, as Trustee, to Cede & Co., as long as Cede & Co. is the registered owner of the Bonds. Disbursement of such payments to the DTC Participants is the responsibility of DTC, and disbursement of such payments to the purchasers of beneficial ownership interests is the responsibility of DTC's Direct and Indirect Participants, as more fully described herein.

*The Bonds are offered when, as and if issued and received by the Underwriters, subject to prior sale, withdrawal or modification of the offer without notice, and to the approval of legality by Stoll Keenon Ogden PLLC, Louisville, Kentucky, as Bond Counsel and upon satisfaction of certain conditions. Certain legal matters will be passed upon for the Company by its counsel, Jones Day, Chicago, Illinois and Gerald A. Reynolds, General Counsel, Chief Compliance Officer and Corporate Secretary of the Company, for the Issuer by its County Attorney, and for the Underwriters by their counsel, McGuireWoods LLP, Chicago, Illinois. It is expected that the Bonds will be available for delivery to DTC in New York, New York on or about August 25, 2016.*

**BofA Merrill Lynch**

**PNC Capital Markets LLC**



No dealer, broker, salesman or other person has been authorized by the Issuer, the Company or the Underwriters to give any information or to make any representation with respect to the Bonds, other than those contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the completeness of such information. The information and expressions of opinion in this Official Statement are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the parties referred to above since the date hereof.

**In connection with the offering of the Bonds, the Underwriters may over-allot or effect transactions which stabilize or maintain the market prices of such Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.**

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

#### Table of Contents

Introductory Statement.....	1
The Issuer.....	3
The Project.....	3
Use of Proceeds.....	3
Summary of the Bonds.....	4
Summary of the Loan Agreement.....	14
Summary of the First Mortgage Bonds and the First Mortgage Indenture .....	18
Summary of the Indenture .....	30
Enforceability of Remedies.....	35
Tax Treatment.....	35
Legal Matters .....	38
Underwriting.....	38
Continuing Disclosure .....	38
Appendix A – Kentucky Utilities Company .....	A-1
Appendix B – Form of Opinion of Bond Counsel .....	B-1

**OFFICIAL STATEMENT**

**\$96,000,000**

**County of Carroll, Kentucky  
Pollution Control Revenue Refunding Bonds  
2016 Series A  
(Kentucky Utilities Company Project)**

**Introductory Statement**

This Official Statement, including the cover page and Appendices, is provided to furnish information in connection with the offer and sale by the County of Carroll, Kentucky (the “Issuer”) of its Pollution Control Revenue Refunding Bonds, 2016 Series A (Kentucky Utilities Company Project), in the aggregate principal amount of \$96,000,000 (the “Bonds”) to be issued pursuant to an Indenture of Trust dated as of August 1, 2016 (the “Indenture”) between the Issuer and U.S. Bank National Association (the “Trustee”), as Trustee, Paying Agent and Bond Registrar.

Pursuant to a Loan Agreement by and between Kentucky Utilities Company (the “Company”) and the Issuer, dated as of August 1, 2016 (the “Loan Agreement”), proceeds from the sale of the Bonds, other than accrued interest, if any, paid by the initial purchasers thereof, will be loaned by the Issuer to the Company.

The proceeds of the Bonds (other than any accrued interest) will be applied in full, together with other moneys made available by the Company, to pay and discharge all of the \$96,000,000 outstanding principal amount of County of Carroll, Kentucky, Pollution Control Revenue Bonds, 2002 Series C (Kentucky Utilities Company Project) (the “2002 Bonds”), previously issued by the Issuer to refinance certain pollution control facilities (the “Project”) owned by the Company. For information regarding the pollution control facilities, see “The Project.”

It is a condition to the Underwriters’ obligation to purchase the Bonds that the Company irrevocably instruct the trustee in respect of the 2002 Bonds, on or prior to the date of issuance of the Bonds, to call the 2002 Bonds for redemption.

The Company will repay the loan under the Loan Agreement by making payments to the Trustee in sufficient amounts to pay the principal or redemption price of and interest on the Bonds and will further agree under the Loan Agreement to make payments of the purchase price of the Bonds tendered for purchase to the extent funds are not otherwise available under the Indenture. See “Summary of the Loan Agreement — General.” Pursuant to the Indenture, the Issuer’s rights under the Loan Agreement (other than with respect to certain rights to indemnification, reimbursement, notice and payment of expenses) will be assigned to the Trustee as security for the Bonds.

For the purpose of further securing the Bonds, the Company will issue and deliver to the Trustee a series of the Company’s First Mortgage Bonds, Collateral Series 2016CCA (the “First Mortgage Bonds”). The principal amount, maturity date and interest rate (or method of determining interest rates) of such First Mortgage Bonds will correspond to the principal amount, maturity date and interest rate (or method of determining interest rates) of the Bonds. The First Mortgage Bonds will only be payable, and interest thereon will only accrue, as described herein. See “Summary of the Loan Agreement — Issuance and Delivery of First Mortgage Bonds” and “Summary of the First Mortgage Bonds and the First Mortgage Indenture.” The First Mortgage Bonds will not provide a direct source of liquidity to pay the purchase price of Bonds tendered for purchase in accordance with the Indenture.

The First Mortgage Bonds will be issued under, and will be secured by, the Company's Indenture, dated as of October 1, 2010, as previously supplemented and as to be supplemented by a supplemental indenture to be dated as of August 1, 2016 relating to the Bonds (the "First Mortgage Supplemental Indenture," and the Indenture, as so supplemented, the "First Mortgage Indenture"), between the Company and The Bank of New York Mellon, as trustee (the "First Mortgage Trustee").

The Company is a wholly-owned subsidiary of LG&E and KU Energy LLC and an indirect wholly-owned subsidiary of PPL Corporation. The Company's obligations under the Loan Agreement are solely its own, and not those of any of its affiliates. None of PPL Corporation or the Company's other affiliates will be obligated to make any payments due under the Loan Agreement or First Mortgage Bonds or any other payments of principal, interest, redemption price or purchase price of the Bonds.

**The Bonds will be special and limited obligations of the Issuer, and the Issuer's obligation to pay the principal or redemption price of and interest on, and purchase price of, the Bonds will be limited solely to the revenues and other amounts received by the Trustee under the Indenture pursuant to the Loan Agreement, including amounts payable on the First Mortgage Bonds. The Bonds will not constitute an indebtedness, general obligation or pledge of the faith and credit or taxing power of the Issuer, the Commonwealth of Kentucky or any political subdivision thereof.**

Brief descriptions of the Company, the Issuer, the Bonds, the Loan Agreement, the Indenture, the First Mortgage Bonds and the First Mortgage Indenture are included in this Official Statement. Such descriptions and information do not purport to be complete, comprehensive or definitive and are not to be construed as a representation or a guaranty of completeness. All references in this Official Statement to the documents are qualified in their entirety by reference to such documents, and references in this Official Statement to the Bonds are qualified in their entirety by reference to the definitive form of the Bonds included in the Indenture. Copies of the Loan Agreement and the Indenture will be available for inspection at the principal corporate trust office of the Trustee and, until the issuance of the Bonds, may be obtained from the Underwriters. The First Mortgage Indenture (including the form of the First Mortgage Bonds) is available for inspection at the office of the Company in Lexington, Kentucky, and at the corporate trust office of the First Mortgage Trustee, in Pittsburgh, Pennsylvania. Certain information relating to The Depository Trust Company ("DTC") and the book-entry-only system has been furnished by DTC. Appendix A to this Official Statement and all information contained under the headings "The Project" and "Use of Proceeds" has been furnished by the Company. The Issuer, Bond Counsel and the Remarketing Agent assume no responsibility for the accuracy or completeness of such Appendix A or such information. The Underwriters have reviewed the information in Appendix A to this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the completeness of such Appendix A or such information. Appendix B to this Official Statement contains the proposed form of opinion of Bond Counsel to be delivered in connection with the issuance and delivery of the Bonds.

***This Official Statement only describes the terms and provisions applicable to the Bonds while accruing interest at the Long Term Rate for the initial Long Term Rate Period. In the event of a remarketing of the Bonds on or after the Mandatory Purchase Date, a supplement to this Official Statement or a new reoffering circular will be prepared describing the new terms and provisions then applicable to such Bonds.***

**The Issuer**

The Issuer is a public body corporate and politic duly created and existing as a county and political subdivision under the Constitution and laws of the Commonwealth of Kentucky. The Issuer is authorized by Sections 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes (collectively, the “Act”) to (a) issue the Bonds to pay and discharge the 2002 Bonds, (b) lend the proceeds from the sale of the Bonds to the Company for such purpose and (c) enter into and perform its obligations under the Loan Agreement and the Indenture. The Issuer, through its legislative body, the Fiscal Court, has adopted one or more ordinances authorizing the issuance of the Bonds and the execution and delivery of the related documents.

THE BONDS WILL BE SPECIAL AND LIMITED OBLIGATIONS PAYABLE SOLELY AND ONLY FROM CERTAIN SOURCES, INCLUDING AMOUNTS TO BE RECEIVED BY OR ON BEHALF OF THE ISSUER UNDER THE LOAN AGREEMENT, INCLUDING AMOUNTS PAYABLE ON THE FIRST MORTGAGE BONDS. THE BONDS WILL NOT CONSTITUTE AN INDEBTEDNESS, GENERAL OBLIGATION OR PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE ISSUER, THE COMMONWEALTH OF KENTUCKY OR ANY POLITICAL SUBDIVISION THEREOF, AND WILL NOT GIVE RISE TO A PECUNIARY LIABILITY OF THE ISSUER OR A CHARGE AGAINST ITS GENERAL CREDIT OR TAXING POWERS.

**The Project**

The Project being refinanced with the Bonds has been completed and is the property of the Company, subject to the lien of the First Mortgage Indenture. The Project consists of certain air, solid waste and water pollution control facilities at the Company’s Ghent Generating Station located in Carroll County, Kentucky (the “Generating Station”).

The Department for Natural Resources and Environmental Protection of the Commonwealth of Kentucky (now the Energy and Environment Cabinet), the agency exercising jurisdiction with respect to the Project, has certified that the Project, as designed (which includes the facilities constituting the Project), is in furtherance of the purposes of abating and controlling atmospheric and water pollutants or contaminants, as applicable.

**Use of Proceeds**

The proceeds from the sale of the Bonds (other than any accrued interest) will be used, together with funds to be provided by the Company, to pay and discharge at a redemption price of 100% of the principal amount thereof, plus accrued interest, all of the outstanding 2002 Bonds, on the date of the issuance of the Bonds. The 2002 Bonds currently bear interest at an auction rate and mature on October 1, 2032. For the twelve months ended June 30, 2016, the weighted average interest rate on the 2002 Bonds was 0.526%.

## Summary of the Bonds

### General

The Bonds will be issued in the aggregate principal amount set forth on the cover page of this Official Statement. The Bonds will mature as to principal on September 1, 2042. The Bonds are also subject to redemption prior to maturity as described in this Official Statement.

The Bonds will bear interest at the Long Term Rate of 1.05% per annum from August 25, 2016 to and including August 31, 2019, and will be subject to mandatory purchase following the initial Long Term Rate Period on September 1, 2019 (the “Mandatory Purchase Date”). Interest on the Bonds will be paid on each March 1 and September 1, commencing March 1, 2017. The Bonds will continue to bear interest at a Long Term Rate for periods to be determined by the Company until a Conversion to another Interest Rate Mode or until the maturity or redemption of the Bonds. The permitted Interest Rate Modes for the Bonds are (i) the Flexible Rate, (ii) the Daily Rate, (iii) the Weekly Rate, (iv) the Semi-Annual Rate, (v) the Annual Rate, (vi) the Long Term Rate, (vii) the LIBOR Index Rate and (viii) the SIFMA-Based Term Rate.

*This Official Statement only describes the terms and provisions applicable to the Bonds while accruing interest at the Long Term Rate for the initial Long Term Rate Period. In the event of a remarketing of the Bonds on or after the Mandatory Purchase Date, a supplement to this Official Statement or a new reoffering circular will be prepared describing the new terms and provisions then applicable to such Bonds.*

Interest on the Bonds will be computed on the basis of a 360-day year, consisting of twelve 30-day months. Interest payable on each March 1 and September 1 will be payable to the registered owner of the Bond as of the February 15 and August 15 preceding such March 1 and September 1.

The Bonds initially will be issued solely in book-entry-only form through DTC (or its nominee, Cede & Co.). So long as the Bonds are held in the book-entry-only system, DTC or its nominee will be the registered owner or holder of the Bonds for all purposes of the Indenture, the Bonds and this Official Statement. See “— Book-Entry-Only System” below. Individual purchases of book-entry interests in the Bonds will be made in book-entry-only form in denominations of \$250,000 and multiples thereof.

So long as the Bonds are held in book-entry-only form, the principal or redemption price of and interest on, and purchase price of, the Bonds will be payable by the Trustee, as paying agent (the “Paying Agent”), through the facilities of DTC (or a successor depository).

Bonds may be transferred or exchanged for an equal total amount of Bonds of other authorized denominations upon surrender of such Bonds at the designated office of the Trustee, as bond registrar (the “Bond Registrar”), accompanied by a written instrument of transfer or authorization for exchange in form and with guaranty of signature satisfactory to the Bond Registrar duly executed by the registered owner or the owner’s duly authorized attorney. Except as provided in the Indenture, the Bond Registrar will not be required to register the transfer or exchange of any Bond (i) during the fifteen days before any mailing of a notice of redemption of Bonds, (ii) after such Bond has been called for redemption or (iii) which has been purchased (see “Mandatory Purchase of Bonds — Payment of Purchase Price” below). Registration of transfers and exchanges will be made without charge to the registered owners of Bonds, except that the Bond Registrar may require any registered owner requesting registration of transfer or exchange to pay any required tax or governmental charge.

## Certain Definitions

As used herein, each of the following terms will have the meaning indicated.

“*Beneficial Owner*” means the person in whose name a Bond is recorded as such by the respective systems of DTC and each Participant (as defined herein) or the registered holder of such Bond if such Bond is not then registered in the name of Cede & Co.

“*Business Day*” means any day other than (i) a Saturday or Sunday or legal holiday or a day on which banking institutions in the city in which the designated office of the Trustee, the Bond Registrar, the Tender Agent, the Paying Agent, the Company or the Remarketing Agent is located are authorized by law or executive order to close or (ii) a day on which the New York Stock Exchange is closed.

“*Conversion*” means any conversion from time to time in accordance with the terms of the Indenture of the Bonds from one Interest Rate Mode to another Interest Rate Mode or the establishment of a new Long Term Rate Period.

“*Interest Rate Mode*” means the Flexible Rate, the Daily Rate, the Weekly Rate, the Semi-Annual Rate, the Annual Rate, the Long Term Rate, the LIBOR Index Rate and the SIFMA-Based Term Rate.

“*Long Term Rate Period*” means the period beginning on, and including, the date of issuance of the Bonds and ending on, and including, August 31, 2019 and, thereafter, the period established by the Company under the Indenture and beginning on September 1, 2019 and ending on the day preceding the last Interest Payment Date for such period and, thereafter, each successive period of the same duration until the day immediately preceding the earliest of the change to a different Long Term Rate Period, the Conversion to a different Interest Rate Mode or the maturity of the Bonds.

“*Remarketing Agent*” means Merrill Lynch, Pierce, Fenner & Smith Incorporated and its successor or successors, who will act as the Remarketing Agent with respect to the Bonds. The Remarketing Agent may resign or be removed and a successor Remarketing Agent may be appointed in accordance with the terms of the Indenture and the remarketing agreement to be entered into between the Remarketing Agent and the Company (the “Remarketing Agreement”). The Remarketing Agent may, without notice to the Company, assign its rights and obligations as Remarketing Agent to a broker-dealer affiliate in accordance with the terms of the Indenture and the Remarketing Agreement.

“*Tender Agent*” means, so long as the Bonds are held in DTC’s book-entry-only system, the Trustee, who will act as Tender Agent under the Indenture. Any successor Tender Agent appointed pursuant to the Indenture will also be a Paying Agent.

**Mandatory Purchase of Bonds**

**General.** The Bonds will be subject to mandatory purchase on the Mandatory Purchase Date at a purchase price equal to the principal amount thereof plus accrued and unpaid interest. Notice to owners of such mandatory purchase will be given by the Bond Registrar by first class mail at least 20 days prior the Mandatory Purchase Date. The notice of mandatory purchase will state those matters required to be set forth therein under the Indenture.

**Remarketing and Purchase of Bonds.** The Indenture provides that, subject to the terms of a Remarketing Agreement with the Company, unless otherwise instructed by the Company, the Remarketing Agent will use its commercially reasonable best efforts to remarket Bonds purchased on the Mandatory Purchase Date. Each such sale will be at a price equal to the principal amount thereof, plus interest accrued to the date of sale. The Remarketing Agent, the Trustee, the Paying Agent, the Bond Registrar or the Tender Agent each may purchase any Bonds offered for sale for its own account.

The purchase price of Bonds tendered for purchase will be paid by the Tender Agent from moneys derived from the remarketing of such Bonds by the Remarketing Agent and, if such remarketing proceeds are insufficient, from moneys made available by the Company.

The Company is obligated to purchase any Bonds tendered for purchase to the extent such Bonds have not been remarketed. Any such purchases by the Company will not result in the extinguishment of the purchased Bonds. The Company currently maintains lines of credit or other liquidity facilities in amounts determined by it to be sufficient to meet its current needs and expects to continue to maintain such lines of credit or other liquidity facilities from time to time to the extent determined by it to be necessary to meet its then-current needs. The Trustee, any Paying Agent, the Tender Agent and the owners of the Bonds have no right to draw under any line of credit or other liquidity facility maintained by the Company. There is no provision in the Indenture or the Loan Agreement requiring the Company to maintain such financing arrangements which may be discontinued at any time without notice. The First Mortgage Bonds are not intended to provide a direct source of liquidity to pay the purchase price of Bonds tendered for purchase pursuant to the Indenture.

Any deficiency in purchase price payments resulting from the Remarketing Agent's failure to deliver remarketing proceeds of all Bonds with respect to which the Remarketing Agent notified the Tender Agent were remarketed will not result in an Event of Default under the Indenture until the opening of business on the next succeeding Business Day unless the Company fails to provide sufficient funds to pay such purchase price by the opening of business on such next succeeding Business Day. If sufficient funds are not available for the purchase of all tendered Bonds, no purchase of Bonds will be consummated, but failure to consummate such purchase will not be deemed to be an Event of Default under the Indenture if sufficient funds have been provided in a timely manner by the Company to the Tender Agent for such purpose.

**Payment of Purchase Price.** Payment of the purchase price of any Bond will be payable on the Mandatory Purchase Date upon delivery of such Bond to the Tender Agent on such Mandatory Purchase Date; provided that such Bond must be delivered to the Tender Agent at or prior to 11:00 a.m. (New York City time). When a book-entry-only system is in effect, the requirement for physical delivery of the Bonds will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on the records of DTC to the participant account of the Tender Agent. If the Mandatory Purchase Date is not a Business Day, the purchase price will be payable on the next succeeding Business Day.

Any Bond delivered for payment of the purchase price must be accompanied by an instrument of transfer thereof in form satisfactory to the Tender Agent executed in blank by the registered owner thereof and with all signatures guaranteed. The Tender Agent may refuse to accept delivery of any Bond for which an instrument of transfer satisfactory to it has not been provided and has no obligation to pay the purchase price of such Bond until a satisfactory instrument is delivered.

If the registered owner of any Bond (or portion thereof) that is subject to purchase pursuant to the Indenture fails to deliver such Bond with an appropriate instrument of transfer to the Tender Agent for purchase on the Mandatory Purchase Date, and if the Tender Agent is in receipt of the purchase price therefor, such Bond (or portion thereof) nevertheless will be deemed purchased on the Mandatory Purchase Date. Any owner who so fails to deliver such Bond for purchase on (or before) the Mandatory Purchase Date will have no further rights thereunder, except the right to receive the purchase price thereof from those moneys deposited with the Tender Agent in the Purchase Fund pursuant to the Indenture upon presentation and surrender of such Bond to the Tender Agent properly endorsed for transfer in blank with all signatures guaranteed.

### Redemptions

**Optional Redemption.** Except as described below under the subheadings “--- Extraordinary Optional Redemption in Whole” and “--- Extraordinary Optional Redemption in Whole or in Part,” the Bonds are not subject to optional redemption prior to the Mandatory Purchase Date.

**Extraordinary Optional Redemption in Whole.** The Bonds may be redeemed by the Issuer in whole at any time at 100% of the principal amount thereof plus accrued interest to the redemption date upon the exercise by the Company of an option under the Loan Agreement to prepay the loan if any of the following events occur within 180 days preceding the giving of written notice by the Company to the Trustee of such election:

- (i) if the Project or a portion thereof or other property of the Company in connection with which the Project is used has been damaged or destroyed to such an extent so as, in the judgment of the Company, to render the Project or other property of the Company in connection with which the Project is used unsatisfactory to the Company for its intended use, and such condition continues for a period of six months;
- (ii) there has occurred condemnation of all or substantially all of the Project or the taking by eminent domain of such use or control of the Project or other property of the Company in connection with which the Project is used so as, in the judgment of the Company, to render the Project or such other property of the Company unsatisfactory to the Company for its intended use;
- (iii) the Loan Agreement has become void or unenforceable or impossible of performance by reason of any changes in the Constitution of the Commonwealth of Kentucky or the Constitution of the United States of America or by reason of legislative or administrative action (whether state or federal) or any final decree, judgment or order of any court or administrative body, whether state or federal; or
- (iv) a final order or decree of any court or administrative body after the issuance of the Bonds requires the Company to cease a substantial part of its operation at the Generating Station to such extent that the Company will be prevented from carrying on its normal operations at such Generating Station for a period of six months.



As a result of a Company Letter Agreement between the Issuer and the Company, to be dated as of August 25, 2016, the Company will agree that it will not, prior to September 1, 2019, exercise the rights under the Loan Agreement it would otherwise have to redeem the Bonds under the following circumstances:

(i) if in the judgment of the Company, unreasonable burdens or excessive liabilities have been imposed upon the Company after the issuance of the Bonds with respect to the Project or the operation thereof, including without limitation federal, state or other ad valorem property, income or other taxes not imposed on the date of the Loan Agreement, other than ad valorem taxes levied upon privately owned property used for the same general purpose as the Project; or

(ii) in the event changes, which the Company cannot reasonably control, in the economic availability of materials, supplies, labor, equipment or other properties or things necessary for the efficient operation of the Generating Station have occurred, which, in the judgment of the Company, render the continued operation of the Generating Station or any generating unit at the Generating Station uneconomical; or changes in circumstances after the issuance of the Bonds, including but not limited to changes in clean air or water or other air and water pollution control requirements or solid waste disposal requirements, have occurred such that the Company determines that use of the Project is no longer required or desirable.

***Extraordinary Optional Redemption in Whole or in Part.*** The Bonds are also subject to redemption in whole or in part at 100% of the principal amount thereof plus accrued interest to the redemption date at the option of the Company in an amount not to exceed the net proceeds received from insurance or any condemnation award received by the Issuer, the Company or the First Mortgage Trustee in the event of damage, destruction or condemnation of all or a portion of the Project, subject to compliance with the terms of the First Mortgage Indenture and receipt of an opinion of Bond Counsel that such redemption will not adversely affect the exclusion of interest on any of the Bonds from gross income for federal income tax purposes. See “Summary of the Loan Agreement — Maintenance; Damage, Destruction and Condemnation.”

***Mandatory Redemption; Determination of Taxability.*** The Bonds are required to be redeemed by the Issuer, in whole, or in such part as described below, at a redemption price equal to 100% of the principal amount thereof, without redemption premium, plus accrued interest, if any, to the redemption date, within 180 days following a “Determination of Taxability.” As used herein, a “Determination of Taxability” means the receipt by the Trustee of written notice from a current or former registered owner of a Bond or from the Company or the Issuer of (i) the issuance of a published or private ruling or a technical advice memorandum by the Internal Revenue Service in which the Company participated or has been given the opportunity to participate, and which ruling or memorandum the Company, in its discretion, does not contest or from which no further right of administrative or judicial review or appeal exists, or (ii) a final determination from which no further right of appeal exists of any court of competent jurisdiction in the United States in a proceeding in which the Company has participated or has been a party, or has been given the opportunity to participate or be a party, in each case, to the effect that as a result of a failure by the Company to perform or observe any covenant or agreement or the inaccuracy of any representation contained in the Loan Agreement or any other agreement or certificate delivered in connection with the Bonds, the interest on the Bonds is included in the gross income of the owners thereof for federal income tax purposes, other than with respect to a person who is a “substantial user” or a “related person” of a substantial user of the Project within the meaning of Section 147 of the Internal Revenue Code of 1986, as amended (the “Code”); provided, however, that no such Determination of Taxability will be considered to exist as a result of the Trustee receiving notice from a current or former registered owner of a Bond or from the Issuer unless (i) the Issuer or the registered owner or former registered owner of the Bond involved in such proceeding or action (a) gives the Company and the

Trustee prompt notice of the commencement thereof, and (b) (if the Company agrees to pay all expenses in connection therewith) offers the Company the opportunity to control unconditionally the defense thereof, and (ii) either (a) the Company does not agree within 30 days of receipt of such offer to pay such expenses and liabilities and to control such defense, or (b) the Company will exhaust or choose not to exhaust all available proceedings for the contest, review, appeal or rehearing of such decree, judgment or action which the Company determines to be appropriate. No Determination of Taxability described above will result from the inclusion of interest on any Bond in the computation of minimum or indirect taxes. All of the Bonds are required to be redeemed upon a Determination of Taxability as described above unless, in the opinion of Bond Counsel, redemption of a portion of such Bonds would have the result that interest payable on the remaining Bonds outstanding after the redemption would not be so included in any such gross income.

In the event any of the Issuer, the Company or the Trustee has been put on notice or becomes aware of the existence or pendency of any inquiry, audit or other proceedings relating to the Bonds being conducted by the Internal Revenue Service, the party so put on notice is required to give immediate written notice to the other parties of such matters. Promptly upon learning of the occurrence of a Determination of Taxability (whether or not the same is being contested), or any of the events described above, the Company is required to give notice thereof to the Trustee and the Issuer.

If the Internal Revenue Service or a court of competent jurisdiction determines that the interest paid or to be paid on any Bond (except to a “substantial user” of the Project or a “related person” within the meaning of Section 147(a) of the Code) is or was includable in the gross income of the recipient for federal income tax purposes for reasons other than as a result of a failure by the Company to perform or observe any of its covenants, agreements or representations in the Loan Agreement or any other agreement or certificate delivered in connection therewith, the Bonds are not subject to redemption. In such circumstances, Bondholders would continue to hold their Bonds, receiving principal and interest at the applicable rate as and when due, but would be required to include such interest payments in gross income for federal income tax purposes. Also, if the lien of the Indenture is discharged or defeased prior to the occurrence of a final Determination of Taxability, Bonds will not be redeemed as described herein.

***General Redemption Terms.*** Notice of redemption will be given by mailing a redemption notice conforming to the provisions and requirements of the Indenture by first class mail to the registered owners of the Bonds to be redeemed not less than 20 days prior to the redemption date.

Any notice mailed as provided in the Indenture will be conclusively presumed to have been given, irrespective of whether the owner receives the notice. Failure to give any such notice by mailing or any defect therein in respect of any Bond will not affect the validity of any proceedings for the redemption of any other Bond. No further interest will accrue on the principal of any Bond called for redemption after the redemption date if funds sufficient for such redemption have been deposited with the Paying Agent as of the redemption date. If the provisions for discharging the Indenture set forth below under the heading “Summary of the Indenture — Discharge of Indenture” have not been complied with, any redemption notice may state that it is conditional on there being sufficient moneys to pay the full redemption price for the Bonds to be redeemed and that if sufficient funds have not been received by the Trustee by the opening of business on the redemption date, such notice shall be of no effect. So long as the Bonds are held in book-entry-only form, all redemption notices will be sent only to Cede & Co.

### **Conversion of Interest Rate Modes**

The Interest Rate Mode for the Bonds is subject to Conversion from time to time, including on the Mandatory Purchase Date following the end of the initial Long Term Rate Period, at the option of the Company in accordance with the terms of the Indenture, upon notice from the Bond Registrar to the

registered owners of the Bonds. With any notice of Conversion, the Company must also deliver to the Bond Registrar an opinion of Bond Counsel stating that such Conversion is authorized or permitted by the Act and is authorized by the Indenture and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes.

### **Security**

Payment of the principal or redemption price of and interest on the Bonds will be secured by an assignment by the Issuer to the Trustee of the Issuer's interest in and to the Loan Agreement and all payments to be made pursuant thereto (other than certain indemnification and expense payments). Pursuant to the Loan Agreement, the Company will agree to pay, among other things, amounts sufficient to pay the aggregate principal amount or redemption price of the Bonds, together with interest thereon as and when the same become due. The Company further will agree to make payments of the purchase price of the Bonds tendered for purchase to the extent that funds are not otherwise available therefor under the provisions of the Indenture.

The payment of the principal or redemption price of and interest on the Bonds will be further secured by the First Mortgage Bonds. The principal amount of the First Mortgage Bonds will equal the principal amount of the Bonds. If the Bonds become immediately due and payable as a result of a default in payment of the principal or redemption price of or interest on the Bonds, or a default in payment of the purchase price of such Bonds, due to an event of default under the Loan Agreement and upon receipt by the First Mortgage Trustee of a written demand from the Trustee for redemption of the First Mortgage Bonds ("Redemption Demand"), or if all first mortgage bonds outstanding under the First Mortgage Indenture shall have become immediately due and payable, such First Mortgage Bonds will begin to bear interest at the same interest rate or rates borne by the Bonds and the principal of such First Mortgage Bonds, together with interest accrued thereon from the last date or dates to which interest on the Bonds has been paid in full, will be payable in accordance with the Supplemental Indenture. See "Summary of the First Mortgage Bonds and the First Mortgage Indenture."

The First Mortgage Bonds are not intended to provide a direct source of liquidity to pay the purchase price of Bonds tendered for purchase in accordance with the Indenture. The Company is not required under the Loan Agreement or Indenture to provide any letter of credit or liquidity support for the Bonds. The First Mortgage Bonds are secured by a lien on certain property owned by the Company. In certain circumstances, the Company is permitted to reduce the aggregate principal amount of its First Mortgage Bonds held by the Trustee, but in no event to an amount lower than the aggregate outstanding principal amount of the Bonds.

### **Book-Entry-Only System**

*Portions of the following information concerning DTC and DTC's book-entry-only system have been obtained from DTC. The Issuer, the Company and the Underwriters make no representation as to the accuracy of such information.*

Initially, DTC will act as securities depository for the Bonds and the Bonds initially will be issued solely in book-entry-only form to be held under DTC's book-entry-only system, registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered bond in the aggregate principal amount of the Bonds will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal

Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934 (the “Exchange Act”). DTC holds and provides asset servicing for U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants” and, together with Direct Participants, “Participants”). The DTC Rules applicable to its Participants are on file with the SEC. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners, however, are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry only system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If fewer than all of the Bonds are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC’s Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to

whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Issuer or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, the Company or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall effect delivery of purchased Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of Bonds in connection with a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Tender Agent's DTC account.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Issuer, the Company, the Tender Agent and the Trustee, or the Issuer, at the request of the Company, may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository for the Bonds). Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be delivered as described in the Indenture (see "— Revision of Book-Entry-Only System; Replacement Bonds" below). The Beneficial Owner, upon registration of certificates held in the Beneficial Owner's name, will become the registered owner of the Bonds.

So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the registered owners of the Bonds will mean Cede & Co. and will not mean the Beneficial Owners. Under the Indenture, payments made by the Trustee to DTC or its nominee will satisfy the Issuer's obligations under the Indenture and the Company's obligations under the Loan Agreement and the First Mortgage Bonds, to the extent of the payments so made. Beneficial Owners will not be, and will not be considered by the Issuer or the Trustee to be, and will not have any rights as, owners of Bonds under the Indenture.

The Trustee and the Issuer, so long as a book-entry-only system is used for the Bonds, will send any notice of redemption or of proposed document amendments requiring consent of registered owners and any other notices required by the document (including notices of Conversion and mandatory purchase) to be sent to registered owners only to DTC (or any successor securities depository) or its nominee. Any failure of DTC to advise any Direct Participant, or of any Direct Participant or Indirect Participant to notify the Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Bonds called for redemption, the document amendment, the Conversion, the mandatory purchase or any other action premised on that notice.

The Issuer, the Company, the Trustee and the Underwriters cannot and do not give any assurances that DTC will distribute payments on the Bonds made to DTC or its nominee as the registered owner or any redemption or other notices, to the Participants, or that the Participants or others will

distribute such payments or notices to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will serve and act in the manner described in this Official Statement.

THE ISSUER, THE COMPANY, THE UNDERWRITERS, THE REMARKETING AGENT AND THE TRUSTEE WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE TRUSTEE AS BEING A REGISTERED OWNER WITH RESPECT TO: (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (2) THE PAYMENT OF ANY AMOUNT DUE BY DTC TO ANY DIRECT PARTICIPANT OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OR REDEMPTION OR PURCHASE PRICE OF OR INTEREST ON THE BONDS; (3) THE DELIVERY OF ANY NOTICE BY DTC TO ANY DIRECT PARTICIPANT OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED TO BE GIVEN TO REGISTERED OWNERS UNDER THE TERMS OF THE INDENTURE; (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS REGISTERED OWNER.

#### **Revision of Book-Entry-Only System; Replacement Bonds**

In the event that DTC determines not to continue as securities depository or is removed by the Issuer, at the direction of the Company, as securities depository, the Issuer, at the direction of the Company, may appoint a successor securities depository reasonably acceptable to the Trustee. If the Issuer does not or is unable to appoint a successor securities depository, the Issuer will issue and the Trustee will authenticate and deliver fully registered Bonds, in authorized denominations, to the assignees of DTC or their nominees.

In the event that the book-entry-only system is discontinued, the following provisions will apply. The Bonds may be issued in denominations of \$250,000 and multiples thereof. Bonds may be transferred or exchanged for an equal total amount of Bonds of other authorized denominations upon surrender of such Bonds at the designated office of the Bond Registrar, accompanied by a written instrument of transfer or authorization for exchange in form and with guaranty of signature satisfactory to the Bond Registrar, duly executed by the registered owner or the owner's duly authorized attorney. Except as provided in the Indenture, the Bond Registrar will not be required to register the transfer or exchange of any Bond during the fifteen days before any mailing of a notice of redemption, after such Bond has been called for redemption in whole or in part, or after such Bond has been tendered or deemed tendered for optional or mandatory purchase as described under "— Mandatory Purchase of Bonds." Registration of transfers and exchanges will be made without charge to the owners of Bonds, except that the Bond Registrar may require any owner requesting registration of transfer or exchange to pay any required tax or governmental charge.

### Summary of the Loan Agreement

*The following, in addition to the provisions contained elsewhere in this Official Statement, is a brief description of certain provisions of the Loan Agreement. This description is only a summary and does not purport to be complete and definitive. Reference is made to the Loan Agreement for the detailed provisions thereof.*

#### General

The term of the Loan Agreement will commence as of its date and end on the earliest to occur of September 1, 2042 or the date on which all of the Bonds have been fully paid or provision has been made for such payment pursuant to the Indenture. See “Summary of the Indenture — Discharge of Indenture.”

The Company will agree to repay the loan pursuant to the Loan Agreement by making timely payments to the Trustee in sufficient amounts to pay the principal or redemption price of and interest required to be paid on the Bonds on each date upon which any such payments are due. The Company will also agree to pay (i) the agreed upon fees and expenses of the Trustee, the Bond Registrar, the Tender Agent and the Paying Agent and all other amounts which may be payable to the Trustee, the Bond Registrar, the Paying Agent and the Tender Agent, as may be applicable, under the Indenture, (ii) the expenses in connection with any redemption of the Bonds and (iii) the reasonable expenses of the Issuer.

The Company will covenant and agree with the Issuer that it will cause the purchase of tendered Bonds that are not remarketed in accordance with the Indenture and, to that end, the Company will cause funds to be made available to the Tender Agent at the times and in the manner required to effect such purchases in accordance with the Indenture (see “Summary of the Bonds — Mandatory Purchase of Bonds — Remarketing and Purchase of Bonds”).

All payments to be made by the Company to the Issuer pursuant to the Loan Agreement (except the fees and reasonable out-of-pocket expenses of the Issuer, the Trustee, the Paying Agent, the Bond Registrar and the Tender Agent, and amounts related to indemnification) will be assigned by the Issuer to the Trustee, and the Company will pay such amounts directly to the Trustee. The obligations of the Company to make the payments pursuant to the Loan Agreement are absolute and unconditional.

#### Maintenance of Tax Exemption

The Company and the Issuer will agree not to take any action that would result in the interest paid on the Bonds being included in gross income of any Bondholder (other than a holder who is a “substantial user” of the Project or a “related person” within the meaning of Section 147(a) of the Code) for federal income tax purposes or that adversely affects the validity of the Bonds.

#### Issuance and Delivery of First Mortgage Bonds

For the purpose of providing security for the Bonds, the Company will execute and deliver to the Trustee the First Mortgage Bonds on the date of issuance of the Bonds. The principal amount of the First Mortgage Bonds executed and delivered to the Trustee will equal the aggregate principal amount of the Bonds. If the Bonds become immediately due and payable as a result of a default in payment of the principal or redemption price of or interest on the Bonds, or a default in payment of the purchase price of such Bonds, due to an event of default under the Loan Agreement and upon receipt by the First Mortgage Trustee of a Redemption Demand, or if all first mortgage bonds outstanding under the First Mortgage Indenture shall have become immediately due and payable, such First Mortgage Bonds will then bear interest at the same interest rate or rates borne by the Bonds and the principal of such First Mortgage

Bonds, together with interest accrued thereon from the last date to which interest on the Bonds shall have been paid in full, will then be payable. See, however, “Summary of the Indenture — Waiver of Events of Default.”

Upon payment of the principal or redemption price of and interest on any of the Bonds, and the surrender to and cancellation thereof by the Trustee, or upon provision for the payment thereof having been made in accordance with the Indenture, First Mortgage Bonds with corresponding principal amounts equal to the aggregate principal amount of the Bonds so surrendered and canceled or for the payment of which provision has been made, will be surrendered by the Trustee to the First Mortgage Trustee and will be canceled by the First Mortgage Trustee. The First Mortgage Bonds will be registered in the name of the Trustee and will be non transferable, except to effect transfers to any successor trustee under the Indenture.

### **Payment of Taxes**

The Company will agree to pay certain taxes and other governmental charges that may be lawfully assessed, levied or charged against or with respect to the Project (see, however, subparagraph (i) under the heading “Summary of the Bonds — Redemptions — Extraordinary Optional Redemption in Whole”). The Company may contest such taxes or other governmental charges unless the security provided by the Indenture would be materially endangered.

### **Maintenance; Damage, Destruction and Condemnation**

So long as any Bonds are outstanding, the Company will maintain, preserve and keep the Project or cause the Project to be maintained, preserved and kept in good repair, working order and condition and will make or cause to be made all proper repairs, replacements and renewals necessary to continue to constitute the Project as air and water pollution control and abatement facilities and solid waste disposal facilities, as applicable, under Section 103(b)(4)(E) and (F) of the Internal Revenue Code of 1954, as amended. However, the Company will have no obligation to maintain, preserve, keep, repair, replace or renew any portion of the Project, the maintenance, preservation, keeping, repair, replacement or renewal of which becomes uneconomical to the Company because of certain events, including damage or destruction by a cause not within the Company’s control, condemnation of the Project, change in government standards and regulations, economic or other obsolescence or termination of operation of generating facilities to the Project.

The Company, at its own expense, may remodel the Project or make substitutions, modifications and improvements to the Project as it deems desirable, which remodeling, substitutions, modifications and improvements are deemed, under the terms of the Loan Agreement to be a part of the Project. The Company may not, however, change or alter the basic nature of the Project or cause it to lose its status under Section 103(b)(4)(E) and (F) of the Internal Revenue Code of 1954, as amended.

If, prior to the payment of all Bonds outstanding, the Project or any portion thereof is destroyed, damaged or taken by the exercise of the power of eminent domain and the Issuer, the Company or the First Mortgage Trustee receives net proceeds from insurance or a condemnation award in connection therewith, the Company must, subject to the requirements of the First Mortgage Indenture, (i) cause such net proceeds to be used to repair or restore the Project or (ii) take any other action, including the redemption of the Bonds in whole or in part at their principal amount, which, by the opinion of Bond Counsel, will not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes. See “Summary of the Bonds — Redemptions — Extraordinary Optional Redemption in Whole or in Part.”



**Project Insurance**

The Company will insure the Project in accordance with the provisions of the First Mortgage Indenture.

**Assignment, Merger and Release of Obligations of the Company**

The Company may assign the Loan Agreement, pursuant to an opinion of Bond Counsel that such assignment will not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes, without obtaining the consent of either the Issuer or the Trustee. Such assignment, however, will not relieve the Company from primary liability for any of its obligations under the Loan Agreement and performance and observance of the other covenants and agreements to be performed by the Company. The Company may dispose of all or substantially all of its assets or consolidate with or merge into another entity, provided the acquirer of the Company's assets or the entity with which it will consolidate with or merge into is a corporation or other business organization organized and existing under the laws of the United States of America or one of the states of the United States of America or the District of Columbia, is qualified and admitted to do business in the Commonwealths of Kentucky and Virginia, assumes in writing all of the obligations and covenants of the Company under the Loan Agreement and delivers a copy of such assumption to the Issuer and the Trustee.

**Release and Indemnification Covenant**

The Company will indemnify and hold the Issuer harmless against any expense or liability incurred, including attorneys' fees, resulting from any loss or damage to property or any injury to or death of any person occurring on or about or resulting from any defect in the Project or from any action commenced in connection with the financing thereof.

**Events of Default**

Each of the following events constitutes an "Event of Default" under the Loan Agreement:

(i) failure by the Company to pay the amounts required for payment of the principal of, including purchase price for tendered Bonds and redemption and acceleration prices, and interest accrued, on the Bonds, at the times specified therein taking into account any periods of grace provided in the Indenture and the Bonds for the applicable payment of interest on the Bonds (see "Summary of the Indenture — Defaults and Remedies"), and such failure shall cause an event of default under the Indenture;

(ii) failure by the Company to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in paragraph (i) above, for a period of 30 days after written notice by the Issuer or Trustee, subject to extension by the Issuer and the Trustee, provided, however, that if such failure is capable of being corrected, but cannot be corrected in such 30-day period, the Issuer and the Trustee will not unreasonably withhold their consent to an extension of such time if corrective action with respect thereto is instituted within such period and is being diligently pursued;

(iii) certain events of bankruptcy, dissolution, liquidation, reorganization or insolvency of the Company;

(iv) the occurrence of an Event of Default under the Indenture; or

(v) all first mortgage bonds outstanding under the First Mortgage Indenture, if not already due, shall have become immediately due and payable, whether by declaration or otherwise, and such acceleration shall not have been rescinded by the First Mortgage Trustee.

Under the Loan Agreement, certain of the Company's obligations (other than the Company's obligations, among others, (i) not to permit any action which would result in interest paid on the Bonds being included in gross income for federal and Kentucky income taxes; (ii) to execute and deliver the First Mortgage Bonds to the Trustee on or before the date of issuance of the Bonds in an amount equal to the principal amount of the Bonds; (iii) to maintain its corporate existence and good standing, and to neither dispose of all or substantially all of its assets or consolidate with or merge into another entity unless certain provisions of the Loan Agreement are satisfied; and (iv) to make loan payments and certain other payments under the provisions of the Loan Agreement) may be suspended if by reason of force majeure (as defined in the Loan Agreement) the Company is unable to carry out such obligations.

### **Remedies**

Upon the happening and continuance of an Event of Default under the Loan Agreement, the Trustee, on behalf of the Issuer, may, among other things, take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the Company, under the Loan Agreement, including any remedies available in respect of the First Mortgage Bonds.

In the event of a default in payment of the principal or redemption price of or interest on the Bonds and the acceleration of the maturity date of the Bonds (to the extent not already due and payable) as a consequence of such Event of Default, the Trustee may demand redemption of the First Mortgage Bonds. See "Summary of the First Mortgage Bonds and the First Mortgage Indenture" and "Summary of the Indenture — Defaults and Remedies." Any amounts collected upon the happening of any such Event of Default must be applied in accordance with the Indenture or, if the Bonds have been fully paid (or provision for payment thereof has been made in accordance with the Indenture) and all other liabilities of the Company accrued under the Indenture and the Loan Agreement have been paid or satisfied, made available to the Company.

### **Options to Prepay; Obligation to Prepay**

The Company may prepay the loan pursuant to the Loan Agreement, in whole or in part, on certain dates, at the prepayment prices as shown under the headings "Summary of the Bonds — Redemptions — Extraordinary Optional Redemption in Whole" and "— Extraordinary Optional Redemption in Whole or in Part." Upon the occurrence of the event described under the heading "Summary of the Bonds — Redemptions — Mandatory Redemption; Determination of Taxability," the Company will be obligated to prepay the loan in an aggregate amount sufficient to redeem the required principal amount of the Bonds.

In each instance, the loan prepayment price must be a sum sufficient, together with other funds deposited with the Trustee and available for such purpose, to redeem the requisite amount of the Bonds at a price equal to 100% of the principal amount plus accrued interest to the redemption date, and to pay all reasonable and necessary fees and expenses of the Trustee, the Paying Agent, the Bond Registrar and the Tender Agent and all other liabilities of the Company under the Loan Agreement accrued to the redemption date.

## Amendments and Modifications

No alteration, amendment, change, supplement or modification of the Loan Agreement is permissible without the written consent of the Trustee. The Issuer and the Trustee may, however, without the consent of or notice to any Bondholders, enter into any alteration, amendment, change, supplement or modification of the Loan Agreement (i) which may be required by the provisions of the Loan Agreement or the Indenture, (ii) for the purpose of curing any ambiguity or formal defect or omission, (iii) in connection with any modification or change necessary to conform the Loan Agreement with changes and modifications in the Indenture or (iv) in connection with any other change which, in the judgment of the Trustee, does not adversely affect the Trustee or the Bondholders. Except for such alterations, amendments, changes, supplements or modifications, the Loan Agreement may be altered, amended, changed, supplemented or modified only with the consent of the Bondholders holding a majority in principal amount of the Bonds then outstanding (see “Summary of the Indenture — Supplemental Indentures” for an explanation of the procedures necessary for Bondholder consent); provided, however, that the approval of the Bondholders holding 100% in principal amount of the Bonds then outstanding is necessary to effectuate an alteration, amendment, change, supplement or modification with respect to the Loan Agreement of the type described in clauses (i) through (iv) of the first sentence of the third paragraph of “Summary of the Indenture — Supplemental Indentures.”

## Summary of the First Mortgage Bonds and the First Mortgage Indenture

*The following, in addition to the provisions contained elsewhere in this Official Statement, is a brief description of certain provisions of the First Mortgage Bonds and the First Mortgage Indenture. This description is only a summary and does not purport to be complete and definitive. Reference is made to the First Mortgage Indenture and to the form of the First Mortgage Bonds for the detailed provisions thereof.*

### General

In connection with the issuance of the Bonds, the First Mortgage Bonds will be issued in a principal amount equal to the principal amount of the Bonds and will constitute a new series of first mortgage bonds under the First Mortgage Indenture (see “Summary of the Loan Agreement — Issuance and Delivery of First Mortgage Bonds”). The statements herein made (being for the most part summaries of certain provisions of the First Mortgage Indenture) are subject to the detailed provisions of the First Mortgage Indenture, which is incorporated herein by this reference. Words or phrases italicized are defined in the First Mortgage Indenture.

The First Mortgage Bonds will mature on the same date and bear interest at the same rate or rates as the Bonds; however, the principal of and interest on the First Mortgage Bonds will not be payable other than upon the occurrence of an event of default under the Loan Agreement. If the Bonds become immediately due and payable as a result of a default in payment of the principal or redemption price of or interest on the Bonds, or a default in payment of the purchase price of such Bonds, due to an event of default under the Loan Agreement, and if all first mortgage bonds outstanding under the First Mortgage Indenture shall not have become immediately due and payable following an *event of default* under the First Mortgage Indenture, the Company will be obligated to redeem the First Mortgage Bonds upon receipt by the First Mortgage Trustee of a Redemption Demand from the Trustee for redemption, at a redemption price equal to the principal amount thereof plus accrued interest at the rates borne by the Bonds from the last date to which interest on the Bonds has been paid.

The First Mortgage Bonds at all times will be in fully registered form registered in the name of the Trustee, will be non negotiable, and will be non transferable except to any successor trustee under the

Indenture. Upon payment and cancellation of Bonds by the Trustee or the Paying Agent (other than any Bond or portion thereof that was canceled by the Trustee or the Paying Agent and for which one or more Bonds were delivered and authenticated pursuant to the Indenture), whether at maturity, by redemption or otherwise, or upon provision for the payment of the Bonds having been made in accordance with the Indenture, an equal principal amount of First Mortgage Bonds will be deemed fully paid and the obligations of the Company thereunder will cease.

### **Security; Lien of the First Mortgage Indenture**

**General.** Except as described below under this heading and under “— Issuance of Additional First Mortgage Bonds,” and subject to the exceptions described under “— Satisfaction and Discharge,” all first mortgage bonds issued under the First Mortgage Indenture, including the First Mortgage Bonds, will be secured, equally and ratably, by the lien of the First Mortgage Indenture, which constitutes, subject to permitted liens and exclusions as described below, a first mortgage lien on substantially all of the Company’s real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity (other than property duly released from the lien of the First Mortgage Indenture in accordance with the provisions thereof and other than excepted property, as described below). Property that is subject to the lien of the First Mortgage Indenture is referred to below as “Mortgaged Property.”

The Company may obtain the release of property from the lien of the First Mortgage Indenture from time to time, upon the bases provided for such release in the First Mortgage Indenture. See “— Release of Property.”

The Company may enter into supplemental indentures with the First Mortgage Trustee, without the consent of the holders of the first mortgage bonds, in order to subject additional property (including property that would otherwise be excepted from such lien) to the lien of the First Mortgage Indenture. This property would constitute *property additions* and would be available as a basis for the issuance of additional first mortgage bonds. See “— Issuance of Additional First Mortgage Bonds.”

The First Mortgage Indenture provides that after-acquired property (other than *excepted property*) will be subject to the lien of the First Mortgage Indenture. However, in the case of consolidation or merger (whether or not the Company is the surviving company) or transfer of the Mortgaged Property as or substantially as an entirety, the First Mortgage Indenture will not be required to be a lien upon any of the properties either owned or subsequently acquired by the successor company except properties acquired from the Company in or as a result of such transfer, as well as improvements, extensions and additions (as defined in the First Mortgage Indenture) to such properties and renewals, replacements and substitutions of or for any part or parts thereof. See “— Consolidation, Merger and Conveyance of Assets as an Entirety.”

**Excepted Property.** The lien of the First Mortgage Indenture does not cover, among other things, the following types of property: property located outside of Kentucky and not specifically subjected or required to be subjected to the lien of the First Mortgage Indenture; property not used by the Company in its electric generation, transmission and distribution business; cash and securities not paid, deposited or held under the First Mortgage Indenture or required so to be; contracts, leases and other agreements of all kinds, contract rights, bills, notes and other instruments, revenues, accounts receivable, claims, demands and judgments; governmental and other licenses, permits, franchises, consents and allowances; intellectual property rights and other general intangibles; vehicles, movable equipment, aircraft and vessels; all goods, stock in trade, wares, merchandise and inventory held for the purpose of sale or lease in the ordinary course of business; materials, supplies, inventory and other personal property consumable in the operation of the Company’s business; fuel; tools and equipment; furniture and furnishings;

computers and data processing, telecommunications and other facilities used primarily for administrative or clerical purposes or otherwise not used in connection with the operation or maintenance of electric generation, transmission and distribution facilities; coal, ore, gas, oil and other minerals and timber rights; electric energy and capacity, gas, steam, water and other products generated, produced, manufactured, purchased or otherwise acquired; real property and facilities used primarily for the production or gathering of natural gas; property which has been released from the lien of the First Mortgage Indenture; and leasehold interests. Property of the Company not covered by the lien of the First Mortgage Indenture is referred to herein as excepted property. Properties held by any of the Company's subsidiaries, as well as properties leased from others, would not be subject to the lien of the First Mortgage Indenture.

**Permitted Liens.** The lien of the First Mortgage Indenture is subject to permitted liens described in the First Mortgage Indenture. Such *permitted liens* include liens existing at the execution date of the First Mortgage Indenture, purchase money liens and other liens placed or otherwise existing on property acquired by the Company after the execution date of the First Mortgage Indenture at the time the Company acquires it, tax liens and other governmental charges which are not delinquent or which are being contested in good faith, mechanics', construction and materialmen's liens, certain judgment liens, easements, reservations and rights of others (including governmental entities) in, and defects of title to, the Company's property, certain leases and leasehold interests, liens to secure public obligations, rights of others to take minerals, timber, electric energy or capacity, gas, water, steam or other products produced by the Company or by others on the Company's property, rights and interests of persons other than the Company arising out of agreements relating to the common ownership or joint use of property, and liens on the interests of such persons in such property and liens which have been bonded or for which other security arrangements have been made.

The First Mortgage Indenture also provides that the First Mortgage Trustee will have a lien, prior to the lien on behalf of the holders of the first mortgage bonds, including the First Mortgage Bonds, upon the Mortgaged Property as security for the Company's payment of its reasonable compensation and expenses and for indemnity against certain liabilities. Any such lien would be a *permitted lien* under the First Mortgage Indenture.

### **Issuance of Additional First Mortgage Bonds**

The maximum principal amount of first mortgage bonds that may be authenticated and delivered under the First Mortgage Indenture is subject to the issuance restrictions described below; provided, however, that the maximum principal amount of first mortgage bonds outstanding at any one time shall not exceed One Quintillion Dollars (\$1,000,000,000,000,000), which amount may be changed by supplemental indenture. As of June 30, 2016, first mortgage bonds in an aggregate principal amount of \$2,350,779,405 were outstanding under the First Mortgage Indenture, of which \$350,779,405 were issued to secure the Company's payment obligations with respect to its outstanding pollution control and environmental facilities revenue bonds, including the Bonds.

First mortgage bonds of any series may be issued from time to time on the basis of, and in an aggregate principal amount not exceeding:

- 66 2/3% of the *cost* or *fair value* to the Company (whichever is less) of *property additions* (as described below) which do not constitute *funded property* (generally, *property additions* which have been made the basis of the authentication and delivery of first mortgage bonds, the release of Mortgaged Property or the withdrawal of cash, which have been substituted for retired *funded property* or which have been used for other specified purposes) after certain deductions and additions, primarily including adjustments to offset property retirements;

- the aggregate principal amount of *retired securities* (as described below); or
- an amount of cash deposited with the First Mortgage Trustee.

*Property additions* generally include any property which is owned by the Company and is subject to the lien of the First Mortgage Indenture except (with certain exceptions) goodwill, going concern value rights or intangible property, or any property the acquisition or construction of which is properly chargeable to one of the Company's operating expense accounts in accordance with U.S. generally accepted accounting principles.

*Retired securities* means, generally, first mortgage bonds which are no longer outstanding under the First Mortgage Indenture, which have not been retired by the application of *funded cash* and which have not been used as the basis for the authentication and delivery of first mortgage bonds, the release of property or the withdrawal of cash.

At June 30, 2016, approximately \$1.8 billion of *property additions* and \$250 million of *retired securities* were available to be used as the basis for the authentication and delivery of first mortgage bonds. The Company intends to issue the First Mortgage Bonds on the basis of *retired securities*.

### Release of Property

Unless an *event of default* has occurred and is continuing, the Company may obtain the release from the lien of the First Mortgage Indenture of any Mortgaged Property, except for cash held by the First Mortgage Trustee, upon delivery to the First Mortgage Trustee of an amount in cash equal to the amount, if any, by which sixty-six and two-thirds percent (66-2/3%) of the cost of the property to be released (or, if less, the *fair value* to the Company of such property at the time it became *funded property*) exceeds the aggregate of:

- an amount equal to 66 2/3% of the aggregate principal amount of obligations secured by *purchase money* liens upon the property to be released and delivered to the First Mortgage Trustee;
- an amount equal to 66 2/3% of the *cost* or *fair value* to the Company (whichever is less) of certified *property additions* not constituting *funded property* after certain deductions and additions, primarily including adjustments to offset property retirements (except that such adjustments need not be made if such *property additions* were acquired or made within the 90-day period preceding the release);
- the aggregate principal amount of first mortgage bonds the Company would be entitled to issue on the basis of *retired securities* (with such entitlement being waived by operation of such release);
- the aggregate principal amount of first mortgage bonds delivered to the First Mortgage Trustee (with such first mortgage bonds to be canceled by the First Mortgage Trustee);
- any amount of cash and/or an amount equal to 66 2/3% of the aggregate principal amount of obligations secured by *purchase money liens* upon the property released that is delivered to the trustee or other holder of a lien prior to the lien of the First Mortgage Indenture, subject to certain limitations described in the First Mortgage Indenture; and

- any taxes and expenses incidental to any sale, exchange, dedication or other disposition of the property to be released.

As used in the First Mortgage Indenture, the term *purchase money lien* means, generally, a lien on the property being released which is retained by the transferor of such property or granted to one or more other persons in connection with the transfer or release thereof, or granted to or held by a trustee or agent for any such persons, and may include liens which cover property in addition to the property being released and/or which secure indebtedness in addition to indebtedness to the transferor of such property.

Unless an *event of default* has occurred and is continuing, property which is not *funded property* may generally be released from the lien of the First Mortgage Indenture without depositing any cash or property with the First Mortgage Trustee as long as (a) the aggregate amount of *cost* or *fair value* to the Company (whichever is less) of all *property additions* which do not constitute *funded property* (excluding the property to be released) after certain deductions and additions, primarily including adjustments to offset property retirements, is not less than zero or (b) the *cost* or *fair value* (whichever is less) of property to be released does not exceed the aggregate amount of the *cost* or *fair value* to the Company (whichever is less) of *property additions* acquired or made within the 90-day period preceding the release.

The First Mortgage Indenture provides simplified procedures for the release of minor properties and property taken by eminent domain, and provides for dispositions of certain obsolete property and grants or surrender of certain rights without any release or consent by the First Mortgage Trustee.

If the Company retains any interest in any property released from the lien of the First Mortgage Indenture, the First Mortgage Indenture will not become a lien on such property or such interest therein or any improvements, extensions or additions to such property or renewals, replacements or substitutions of or for such property or any part or parts thereof.

#### **Withdrawal of Cash**

Unless an *event of default* has occurred and is continuing, and subject to certain limitations, cash held by the First Mortgage Trustee may, generally, (1) be withdrawn by the Company (a) to the extent of sixty-six and two-thirds percent (66-2/3%) of the *cost* or *fair value* to the Company (whichever is less) of *property additions* not constituting *funded property*, after certain deductions and additions, primarily including adjustments to offset retirements (except that such adjustments need not be made if such *property additions* were acquired or made within the 90-day period preceding the withdrawal) or (b) in an amount equal to the aggregate principal amount of first mortgage bonds that the Company would be entitled to issue on the basis of *retired securities* (with the entitlement to such issuance being waived by operation of such withdrawal) or (c) in an amount equal to the aggregate principal amount of any outstanding first mortgage bonds delivered to the First Mortgage Trustee; or (2) upon the Company's request, be applied to (a) the purchase of first mortgage bonds in a manner and at a price approved by the Company or (b) the payment (or provision for payment) at stated maturity of any first mortgage bonds or the redemption (or provision for payment) of any first mortgage bonds which are redeemable; provided, however, that cash deposited with the First Mortgage Trustee as the basis for the authentication and delivery of first mortgage bonds may, in addition, be withdrawn in an amount not exceeding the aggregate principal amount of cash delivered to the First Mortgage Trustee for such purpose.

## Events of Default

An “*event of default*” occurs under the First Mortgage Indenture if

- the Company does not pay any interest on any first mortgage bonds within 30 days of the due date;
- the Company does not pay principal or premium, if any, on any first mortgage bonds on the due date;
- the Company remains in breach of any other covenant (excluding covenants specifically dealt with elsewhere in this section) in respect of any first mortgage bonds for 90 days after the Company receives a written notice of default stating the Company is in breach and requiring remedy of the breach; the notice must be sent by either the First Mortgage Trustee or holders of 25% of the principal amount of outstanding first mortgage bonds; the First Mortgage Trustee or such holders can agree to extend the 90-day period and such an agreement to extend will be automatically deemed to occur if the Company initiates corrective action within such 90-day period and the Company is diligently pursuing such action to correct the default; or
- the Company files for bankruptcy or certain other events in bankruptcy, insolvency, receivership or reorganization occur.

## Remedies

***Acceleration of Maturity.*** If an *event of default* occurs and is continuing, then either the First Mortgage Trustee or the holders of not less than 25% in principal amount of the outstanding first mortgage bonds may declare the principal amount of all of the first mortgage bonds to be due and payable immediately.

***Rescission of Acceleration.*** After the declaration of acceleration has been made and before the First Mortgage Trustee has obtained a judgment or decree for payment of the money due, such declaration and its consequences will be rescinded and annulled, if

- the Company pays or deposits with the First Mortgage Trustee a sum sufficient to pay:
  - all overdue interest;
  - the principal of and premium, if any, which have become due otherwise than by such declaration of acceleration and interest thereon;
  - interest on overdue interest to the extent lawful; and
  - all amounts due to the First Mortgage Trustee under the First Mortgage Indenture; and
- all *events of default*, other than the nonpayment of the principal which has become due solely by such declaration of acceleration, have been cured or waived as provided in the First Mortgage Indenture.



For more information as to waiver of defaults, see “— Waiver of Default and of Compliance” below.

***Appointment of Receiver and Other Remedies.*** Subject to the First Mortgage Indenture, under certain circumstances and to the extent permitted by law, if an *event of default* occurs and is continuing, the First Mortgage Trustee has the power to appoint a receiver of the Mortgaged Property, and is entitled to all other remedies available to mortgagees and secured parties under the Uniform Commercial Code or any other applicable law.

***Control by Holders; Limitations.*** Subject to the First Mortgage Indenture, if an *event of default* occurs and is continuing, the holders of a majority in principal amount of the outstanding first mortgage bonds will have the right to

- direct the time, method and place of conducting any proceeding for any remedy available to the First Mortgage Trustee, or
- exercise any trust or power conferred on the First Mortgage Trustee.

The rights of holders to make direction are subject to the following limitations:

- the holders’ directions may not conflict with any law or the First Mortgage Indenture; and
- the holders’ directions may not involve the First Mortgage Trustee in personal liability where the First Mortgage Trustee believes indemnity is not adequate.

The First Mortgage Trustee may also take any other action it deems proper which is not inconsistent with the holders’ direction.

In addition, the First Mortgage Indenture provides that no holder of any first mortgage bond will have any right to institute any proceeding, judicial or otherwise, with respect to the First Mortgage Indenture for the appointment of a receiver or for any other remedy thereunder unless

- that holder has previously given the First Mortgage Trustee written notice of a continuing *event of default*;
- the holders of 25% in aggregate principal amount of the outstanding first mortgage bonds have made written request to the First Mortgage Trustee to institute proceedings in respect of that *event of default* and have offered the First Mortgage Trustee reasonable indemnity against costs, expenses and liabilities incurred in complying with such request; and
- for 60 days after receipt of such notice, request and offer of indemnity, the First Mortgage Trustee has failed to institute any such proceeding and no direction inconsistent with such request has been given to the First Mortgage Trustee during such 60-day period by the holders of a majority in aggregate principal amount of outstanding first mortgage bonds.

Furthermore, no holder of first mortgage bonds will be entitled to institute any such action if and to the extent that such action would disturb or prejudice the rights of other holders of first mortgage bonds.

However, each holder of first mortgage bonds has an absolute and unconditional right to receive payment when due and to bring a suit to enforce that right.

**Notice of Default.** The First Mortgage Trustee is required to give the holders of the first mortgage bonds notice of any default under the First Mortgage Indenture to the extent required by the Trust Indenture Act, unless such default has been cured or waived; except that in the case of an *event of default* of the character specified in the third bullet point under “— Events of Default” (regarding a breach of certain covenants continuing for 90 days after the receipt of a written notice of default), no such notice shall be given to such holders until at least 60 days after the occurrence thereof. The Trust Indenture Act currently permits the First Mortgage Trustee to withhold notices of default (except for certain payment defaults) if the First Mortgage Trustee in good faith determines the withholding of such notice to be in the interests of the holders of the first mortgage bonds.

The Company will furnish the First Mortgage Trustee with an annual statement as to its compliance with the conditions and covenants in the First Mortgage Indenture.

**Waiver of Default and of Compliance.** The holders of a majority in aggregate principal amount of the outstanding first mortgage bonds may waive, on behalf of the holders of all outstanding first mortgage bonds, any past default under the First Mortgage Indenture, except a default in the payment of principal, premium or interest, or with respect to compliance with certain provisions of the First Mortgage Indenture that cannot be amended without the consent of the holder of each outstanding first mortgage bond affected.

Compliance with certain covenants in the First Mortgage Indenture or otherwise provided with respect to first mortgage bonds may be waived by the holders of a majority in aggregate principal amount of the affected first mortgage bonds, considered as one class.

#### **Consolidation, Merger and Conveyance of Assets as an Entirety**

Subject to the provisions described below, the Company has agreed to preserve its corporate existence.

The Company has agreed not to consolidate with or merge with or into any other entity or convey, transfer or lease the Mortgaged Property as or substantially as an entirety to any entity unless

- the entity formed by such consolidation or into which the Company merges, or the entity which acquires or which leases the Mortgaged Property substantially as an entirety, is an entity organized and existing under the laws of the United States of America or any State or Territory thereof or the District of Columbia; and
  - expressly assumes, by supplemental indenture, the due and punctual payment of the principal of, and premium and interest on, all the outstanding first mortgage bonds and the performance of all of the Company’s covenants under the First Mortgage Indenture; and
  - such entity confirms the lien of the First Mortgage Indenture on the Mortgaged Property; and
- in the case of a lease, such lease is made expressly subject to termination by (i) the Company or by the First Mortgage Trustee and (ii) the purchaser of the property so leased at any sale thereof, at any time during the continuance of an *event of default*; and

- immediately after giving effect to such transaction, no *event of default*, and no event which after notice or lapse of time or both would become an *event of default*, will have occurred and be continuing.

In the case of the conveyance or other transfer of the Mortgaged Property as or substantially as an entirety to any other person, upon the satisfaction of all the conditions described above the Company would be released and discharged from all obligations under the First Mortgage Indenture and on the first mortgage bonds then outstanding unless the Company elects to waive such release and discharge.

The First Mortgage Indenture does not prevent or restrict:

- any consolidation or merger after the consummation of which the Company would be the surviving or resulting entity; or
- any conveyance or other transfer, or lease, of any part of the Mortgaged Property which does not constitute the entirety or substantially the entirety thereof.

If following a conveyance or other transfer, or lease, of any part of the Mortgaged Property, the fair value of the Mortgaged Property retained by the Company exceeds an amount equal to three-halves (3/2) of the aggregate principal amount of all outstanding first mortgage bonds, then the part of the Mortgaged Property so conveyed, transferred or leased shall be deemed not to constitute the entirety or substantially the entirety of the Mortgaged Property. This *fair value* will be determined within 90 days of the conveyance or transfer by an independent expert that the Company selects and that is approved by the First Mortgage Trustee.

#### **Modification of First Mortgage Indenture**

***Without Holder Consent.*** Without the consent of any holders of first mortgage bonds, the Company and the First Mortgage Trustee may enter into one or more supplemental indentures for any of the following purposes:

- to evidence the succession of another entity to the Company;
- to add one or more covenants or other provisions for the benefit of the holders of all or any series or tranche of first mortgage bonds, or to surrender any right or power conferred upon the Company;
- to correct or amplify the description of any property at any time subject to the lien of the First Mortgage Indenture; or to better assure, convey and confirm unto the First Mortgage Trustee any property subject or required to be subjected to the lien of the First Mortgage Indenture; or to subject to the lien of the First Mortgage Indenture additional property (including property of others), to specify any additional Permitted Liens with respect to such additional property and to modify the provisions in the First Mortgage Indenture for dispositions of certain types of property without release in order to specify any additional items with respect to such additional property;
- to add any additional *events of default*, which may be stated to remain in effect only so long as the first mortgage bonds of any one more particular series remains outstanding;

- to change or eliminate any provision of the First Mortgage Indenture or to add any new provision to the First Mortgage Indenture that does not adversely affect the interests of the holders in any material respect;
- to establish the form or terms of any series or tranche of first mortgage bonds;
- to provide for the issuance of bearer securities;
- to evidence and provide for the acceptance of appointment of a successor First Mortgage Trustee or by a co-trustee or separate trustee;
- to provide for the procedures required to permit the utilization of a noncertificated system of registration for any series or tranche of first mortgage bonds;
- to change any place or places where
  - the Company may pay principal, premium and interest,
  - first mortgage bonds may be surrendered for transfer or exchange, and
  - notices and demands to or upon the Company may be served;
- to amend and restate the First Mortgage Indenture as originally executed, and as amended from time to time, with such additions, deletions and other changes that do not adversely affect the interest of the holders in any material respect;
- to cure any ambiguity, defect or inconsistency or to make any other changes that do not adversely affect the interests of the holders in any material respect; or
- to increase or decrease the maximum principal amount of first mortgage bonds that may be outstanding at any time.

In addition, if the Trust Indenture Act is amended after the date of the First Mortgage Indenture so as to require changes to the First Mortgage Indenture or so as to permit changes to, or the elimination of, provisions which, at the date of the First Mortgage Indenture or at any time thereafter, were required by the Trust Indenture Act to be contained in the First Mortgage Indenture, the First Mortgage Indenture will be deemed to have been amended so as to conform to such amendment or to effect such changes or elimination, and the Company and the First Mortgage Trustee may, without the consent of any holders, enter into one or more supplemental indentures to effect or evidence such amendment.

***With Holder Consent.*** Except as provided above, the consent of the holders of at least a majority in aggregate principal amount of the first mortgage bonds of all outstanding series, considered as one class, is generally required for the purpose of adding to, or changing or eliminating any of the provisions of, the First Mortgage Indenture pursuant to a supplemental indenture. However, if less than all of the series of outstanding first mortgage bonds are directly affected by a proposed supplemental indenture, then such proposal only requires the consent of the holders of a majority in aggregate principal amount of the outstanding first mortgage bonds of all directly affected series, considered as one class. Moreover, if the first mortgage bonds of any series have been issued in more than one tranche and if the proposed supplemental indenture directly affects the rights of the holders of first mortgage bonds of one or more, but less than all, of such tranches, then such proposal only requires the consent of the holders of a

majority in aggregate principal amount of the outstanding first mortgage bonds of all directly affected tranches, considered as one class.

However, no amendment or modification may, without the consent of the holder of each outstanding first mortgage bond directly affected thereby:

- change the stated maturity of the principal or interest on any first mortgage bond (other than pursuant to the terms thereof), or reduce the principal amount, interest or premium payable (or the method of calculating such rates) or change the currency in which any first mortgage bond is payable, or impair the right to bring suit to enforce any payment;
- create any lien (not otherwise permitted by the First Mortgage Indenture) ranking prior to the lien of the First Mortgage Indenture with respect to all or substantially all of the Mortgaged Property, or terminate the lien of the First Mortgage Indenture on all or substantially all of the Mortgaged Property (other than in accordance with the terms of the First Mortgage Indenture), or deprive any holder of the benefits of the security of the lien of the First Mortgage Indenture;
- reduce the percentages of holders whose consent is required for any supplemental indenture or waiver of compliance with any provision of the First Mortgage Indenture or of any default thereunder and its consequences, or reduce the requirements for quorum and voting under the First Mortgage Indenture; or
- modify certain of the provisions of the First Mortgage Indenture relating to supplemental indentures, waivers of certain covenants and waivers of past defaults with respect to first mortgage bonds.

A supplemental indenture which changes, modifies or eliminates any provision of the First Mortgage Indenture expressly included solely for the benefit of holders of first mortgage bonds of one or more particular series or tranches will be deemed not to affect the rights under the First Mortgage Indenture of the holders of first mortgage bonds of any other series or tranche.

### **Satisfaction and Discharge**

Any first mortgage bonds or any portion thereof will be deemed to have been paid and no longer outstanding for purposes of the First Mortgage Indenture and, at the Company's election, the Company's entire indebtedness with respect to those securities will be satisfied and discharged, if there shall have been irrevocably deposited with the First Mortgage Trustee or any Paying Agent (other than the Company), in trust:

- money sufficient, or
- in the case of a deposit made prior to the maturity of such first mortgage bonds, non-redeemable *eligible obligations* (as defined in the First Mortgage Indenture) sufficient, or
- a combination of the items listed in the preceding two bullet points, which in total are sufficient,

to pay when due the principal of, and any premium, and interest due and to become due on such first mortgage bonds or portions of such first mortgage bonds on and prior to their maturity.

The Company's right to cause its entire indebtedness in respect of the first mortgage bonds of any series to be deemed to be satisfied and discharged as described above will be subject to the satisfaction of any conditions specified in the instrument creating such series.

The First Mortgage Indenture will be deemed satisfied and discharged when no first mortgage bonds remain outstanding and when the Company has paid all other sums payable by it under the First Mortgage Indenture.

All moneys the Company pays to the First Mortgage Trustee or any Paying Agent on First Mortgage Bonds that remain unclaimed at the end of two years after payments have become due may be paid to or upon the Company's order. Thereafter, the holder of such First Mortgage Bond may look only to the Company for payment.

#### **Duties of the First Mortgage Trustee; Resignation and Removal of the First Mortgage Trustee; Deemed Resignation**

The First Mortgage Trustee will have, and will be subject to, all the duties and responsibilities specified with respect to an indenture trustee under the Trust Indenture Act. Subject to these provisions, the First Mortgage Trustee will be under no obligation to exercise any of the powers vested in it by the First Mortgage Indenture at the request of any holder of first mortgage bonds, unless offered reasonable indemnity by such holder against the costs, expenses and liabilities which might be incurred thereby. The First Mortgage Trustee will not be required to expend or risk its own funds or otherwise incur financial liability in the performance of its duties if the First Mortgage Trustee reasonably believes that repayment or adequate indemnity is not reasonably assured to it.

The First Mortgage Trustee may resign at any time by giving written notice to the Company.

The First Mortgage Trustee may also be removed by act of the holders of a majority in principal amount of the then outstanding first mortgage bonds.

No resignation or removal of the First Mortgage Trustee and no appointment of a successor trustee will become effective until the acceptance of appointment by a successor trustee in accordance with the requirements of the First Mortgage Indenture.

Under certain circumstances, the Company may appoint a successor trustee and if the successor accepts, the First Mortgage Trustee will be deemed to have resigned.

#### **Evidence to be Furnished to the First Mortgage Trustee**

Compliance with First Mortgage Indenture provisions is evidenced by written statements of the Company's officers or persons selected or paid by the Company. In certain cases, opinions of counsel and certifications of an engineer, accountant, appraiser or other expert (who in some cases must be independent) must be furnished. In addition, the First Mortgage Indenture requires the Company to give to the First Mortgage Trustee, not less than annually, a brief statement as to the Company's compliance with the conditions and covenants under the First Mortgage Indenture.

#### **Miscellaneous Provisions**

The First Mortgage Indenture provides that certain first mortgage bonds, including those for which payment or redemption money has been deposited or set aside in trust as described under "— Satisfaction and Discharge" above, will not be deemed to be "outstanding" in determining whether the

holders of the requisite principal amount of the outstanding first mortgage bonds have given or taken any demand, direction, consent or other action under the First Mortgage Indenture as of any date, or are present at a meeting of holders for quorum purposes.

The Company will be entitled to set any day as a record date for the purpose of determining the holders of outstanding first mortgage bonds of any series entitled to give or take any demand, direction, consent or other action under the First Mortgage Indenture, in the manner and subject to the limitations provided in the First Mortgage Indenture. In certain circumstances, the First Mortgage Trustee also will be entitled to set a record date for action by holders. If such a record date is set for any action to be taken by holders of particular first mortgage bonds, such action may be taken only by persons who are holders of such first mortgage bonds on the record date.

### **Governing Law**

The First Mortgage Indenture and the first mortgage bonds provide that they are to be governed by and construed in accordance with the laws of the State of New York except where the Trust Indenture Act is applicable or where otherwise required by law. The effectiveness of the lien of the First Mortgage Indenture, and the perfection and priority thereof, will be governed by Kentucky law.

### **Summary of the Indenture**

*The following, in addition to the provisions contained elsewhere in this Official Statement, is a brief description of certain provisions of the Indenture. This description is only a summary and does not purport to be complete and definitive. Reference is made to the Indenture for the detailed provisions thereof.*

### **Security**

Pursuant to the Indenture, the Issuer will assign and pledge to the Trustee its interest in and to the Loan Agreement, including payments and other amounts due the Issuer thereunder, together with all moneys, property and securities from time to time held by the Trustee under the Indenture (with certain exceptions, including moneys held in or earnings on the Rebate Fund and the Purchase Fund).

The Bonds will be further secured by the First Mortgage Bonds to be delivered to the Trustee (see “Summary of the Loan Agreement — Issuance and Delivery of First Mortgage Bonds”). The First Mortgage Bonds will be registered in the name of the Trustee and will be nontransferable, except to effect a transfer to any successor trustee. The Bonds will not be directly secured by the Project (although the Project is subject to the lien of the First Mortgage Indenture).

### **No Pecuniary Liability of the Issuer**

No provision, covenant or agreement contained in the Indenture or in the Loan Agreement, nor any breach thereof, will constitute or give rise to any pecuniary liability of the Issuer or any charge upon any of its assets or its general credit or taxing powers. The Issuer has not obligated itself by making the covenants, agreements or provisions contained in the Indenture or in the Loan Agreement, except with respect to the application of the amounts assigned to payment of the principal or redemption price of and interest on the Bonds.

**The Bond Fund**

The payments to be made by the Company pursuant to the Loan Agreement to the Issuer and certain other amounts specified in the Indenture will be deposited into a Bond Fund established pursuant to the Indenture (the “Bond Fund”) and will be maintained in trust by the Trustee. Moneys in the Bond Fund will be used solely and only for the payment of the principal or redemption price of and interest on the Bonds, and for the payment of the reasonable fees and expenses to which the Trustee, Bond Registrar, Tender Agent, Authenticating Agent, any Paying Agent and the Issuer are entitled pursuant to the Indenture or the Loan Agreement. Any moneys held in the Bond Fund will be invested by the Trustee at the specific written direction of the Company in certain Governmental Obligations, investment-grade corporate obligations and other investments permitted under the Indenture.

**The 2002 Bond Fund**

The proceeds from the issuance of the Bonds will be deposited by the Trustee in the County of Carroll, Kentucky, Pollution Control Revenue Bond Fund, 2002 Series C (Kentucky Utilities Company Project) created by the Indenture of Trust dated as of July 1, 2002 for the 2002 Bonds in an amount adequate to pay, together with other moneys to be provided by the Company, all principal of and accrued interest on the related issue of the 2002 Bonds to become due and payable on their scheduled redemption date.

**The Rebate Fund**

A Rebate Fund has been created by the Indenture (the “Rebate Fund”) and will be maintained as a separate fund free and clear of the lien of the Indenture. The Issuer, the Trustee and the Company have agreed to comply with all rebate requirements of the Code and, in particular, the Company has agreed that if necessary, it will deposit in the Rebate Fund any such amount as is required under the Code. However, the Issuer, the Trustee and the Company may disregard the Rebate Fund provisions to the extent that they receive an opinion of Bond Counsel that such failure to comply will not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes.

**Discharge of Indenture**

When all the Bonds and all fees and charges accrued and to accrue of the Trustee and the Paying Agent have been paid or provided for, and when proper notice has been given to the Bondholders or the Trustee that the proper amounts have been so paid or provided for, and if the Issuer is not in default in any other respect under the Indenture, the Indenture will become null and void. The Bonds will be deemed to have been paid and discharged when there have been irrevocably deposited with the Trustee moneys sufficient to pay the principal or redemption price of and accrued interest on such Bonds to the due date (whether such date be by reason of maturity or upon redemption) or, in lieu thereof, Governmental Obligations have been deposited which mature in such amounts and at such times as will provide the funds necessary to so pay such Bonds, and when all reasonable and necessary fees and expenses of the Trustee, the Tender Agent, the Authenticating Agent, the Bond Registrar and the Paying Agent have been paid or provided for.

**Surrender of First Mortgage Bonds**

Upon payment of any principal or redemption price of and interest on any of the Bonds which reduces the principal amount of Bonds outstanding, or upon provision for the payment thereof having been made in accordance with the Indenture (see “Discharge of Indenture” above), First Mortgage Bonds in a principal amount equal to the principal amount of the Bonds so paid, or for the payment of which



such provision has been made, shall be surrendered by the Trustee to the First Mortgage Trustee. The First Mortgage Bonds so surrendered shall be deemed fully paid and the obligations of the Company thereunder terminated.

### Defaults and Remedies

Each of the following events constitutes an “Event of Default” under the Indenture:

(i) failure to make due and punctual payment of any installment of interest on any Bond within a period of five Business Days from the due date;

(ii) failure to make due and punctual payment of the principal of, or premium, if any, on any Bond on the due date, whether at the stated maturity thereof, or upon proceedings for redemption, or upon the maturity thereof by declaration or if payment of the purchase price of any Bond required to be purchased pursuant to the Indenture is not made when such payment has become due and payable, provided that no Event of Default has occurred in respect of failure to receive such purchase price for any Bond if the Company has made the payment at the opening of business on the next Business Day as described in the last paragraph under “Summary of the Bonds — Mandatory Purchase of Bonds — Remarketing and Purchase of Bonds” above;

(iii) failure by the Issuer to perform or observe any other of the covenants, agreements or conditions in the Indenture or in the Bonds which failure continues for a period of 30 days after written notice by the Trustee or by the registered owners holding not less than 25% in aggregate principal amount of all Bonds outstanding, provided, however, that if such failure is capable of being cured, but cannot be cured in such 30-day period, it will not constitute an Event of Default under the Indenture if corrective action in respect of such failure is instituted within such 30-day period and is being diligently pursued;

(iv) the occurrence of an “Event of Default” under the Loan Agreement (see “Summary of the Loan Agreement — Events of Default”); or

(v) all first mortgage bonds outstanding under the First Mortgage Indenture, if not already due, shall have become immediately due and payable, whether by declaration or otherwise, and such acceleration shall not have been rescinded by the First Mortgage Trustee.

Upon the occurrence of an Event of Default under the Indenture, the Trustee may, and upon the written request of the registered owners holding not less than 25% in aggregate principal amount of Bonds then outstanding and upon receipt of indemnity reasonably satisfactory to it, must: (i) enforce each and every right granted to the Trustee as a holder of the First Mortgage Bonds (see “Summary of the First Mortgage Bonds and the First Mortgage Indenture”), (ii) declare the principal of all Bonds and interest accrued thereon to be immediately due and payable and (iii) declare all payments under the Loan Agreement to be immediately due and payable and enforce each and every other right granted to the Issuer under the Loan Agreement for the benefit of the Bondholders. Interest on the Bonds will cease to accrue on the date of issuance of a declaration of acceleration of payment of the principal and interest on the Bonds.

In exercising such rights, the Trustee will take any action that, in the judgment of the Trustee, would best serve the interests of the registered owners, taking into account the security and remedies afforded to holders of first mortgage bonds under the First Mortgage Indenture. Upon the occurrence of an Event of Default under the Indenture, the Trustee may also proceed to pursue any available remedy by

suit at law or in equity to enforce the payment of the principal or redemption price of and interest on the Bonds then outstanding.

If an Event of Default under the Indenture shall occur and be continuing and the maturity date of the Bonds has been accelerated (to the extent the Bonds are not already due and payable) as a consequence of such event of default, the Trustee may, and upon the written request of the registered owners holding not less than 25% in principal amount of all Bonds then outstanding and upon receipt of indemnity satisfactory to it shall, exercise such rights as it shall possess under the First Mortgage Indenture as a holder of the First Mortgage Bonds and shall also issue a Redemption Demand for such First Mortgage Bonds to the First Mortgage Trustee.

If the Trustee recovers any moneys following an Event of Default, unless the principal of the Bonds has been declared due and payable, all such moneys will be applied in the following order: (i) to the payment of the fees, expenses, liabilities and advances incurred or made by the Trustee and the Paying Agent and the payment of any sums due and payable to the United States pursuant to Section 148(f) of the Code, (ii) to the payment of all interest then due on the Bonds, and (iii) to the payment of unpaid principal and premium, if any, of the Bonds. If the principal of the Bonds has become due or has been accelerated, such moneys will be applied in the following order: (i) to the payment of the fees, expenses, liabilities and advances incurred or made by the Trustee and the Paying Agent and (ii) to the payment of principal of and interest then due and unpaid on the Bonds.

No Bondholder may institute any suit or proceeding in equity or at law for the enforcement of the Indenture unless an Event of Default has occurred of which the Trustee has been notified or is deemed to have notice, and registered owners holding not less than 25% in aggregate principal amount of Bonds then outstanding have made written request to the Trustee to proceed to exercise the powers granted under the Indenture or to institute such action in their own name and the Trustee fails or refuses to exercise its powers within a reasonable time after receipt of indemnity satisfactory to it.

Any judgment against the Issuer pursuant to the exercise of rights under the Indenture will be enforceable only against specific assigned payments, funds and accounts under the Indenture in the hands of the Trustee. No deficiency judgment will be authorized against the general credit of the Issuer.

#### **Waiver of Events of Default**

Except as provided below, the Trustee may in its discretion waive any Event of Default under the Indenture and will do so upon the written request of the registered owners holding a majority in principal amount of all Bonds then outstanding. If, after the principal of all Bonds then outstanding have been declared to be due and payable as a result of a default under the Indenture and prior to any judgment or decree for the appointment of a receiver or for the payment of the moneys due has been obtained or entered, (i) the Company causes to be deposited with the Trustee a sum sufficient to pay all matured installments of interest upon all Bonds and the principal of and premium, if any, on any and all Bonds which would become due otherwise than by reason of such declaration (with interest thereon as provided in the Indenture) and the expenses of the Trustee in connection with such default and (ii) all Events of Default under the Indenture (other than nonpayment of the principal of Bonds due by said declaration) have been remedied, then such Event of Default will be deemed waived and such declaration and its consequences rescinded and annulled by the Trustee. Such waiver, rescission and annulment will be binding upon all Bondholders. No such waiver, rescission and annulment will extend to or affect any subsequent Event of Default or impair any right or remedy consequent thereon.

Upon any waiver or rescission as described above or any discontinuance or abandonment of proceedings under the Indenture, the Trustee shall immediately rescind in writing any Redemption

Demand of First Mortgage Bonds previously given to the First Mortgage Trustee. The rescission under the First Mortgage Indenture of a declaration that all first mortgage bonds outstanding under the First Mortgage Indenture are immediately due and payable shall also constitute a waiver of an Event of Default described in paragraph (v) under the subheading “Defaults and Remedies” above and a waiver and rescission of its consequences, provided that no such waiver or rescission shall extend to or affect any subsequent or other default or impair any right consequent thereon.

Notwithstanding the foregoing, nothing in the Indenture will affect the right of a registered owner to enforce the payment of principal or redemption price of and interest on the Bonds after the maturity thereof.

### **Voting of First Mortgage Bonds Held by Trustee**

The Indenture provides that the Trustee, as the holder of the First Mortgage Bonds, will be required to attend such meeting or meetings of bondholders under the First Mortgage Indenture or, at its option, deliver its proxy in connection therewith, as relate to matters with respect to which it, as such holder, is entitled to vote or consent. The Trustee, either at any such meeting or meetings or otherwise when the consent of the holders of the First Mortgage Bonds is sought without a meeting, will be required to vote all First Mortgage Bonds then held by it, or consent with respect thereto, proportionately with the vote or consent of the holders of all other securities of the Company then outstanding under the First Mortgage Indenture eligible to vote or consent, as evidenced by, and as to be delivered to the Trustee, a certificate signed by the temporary chairman, the temporary secretary, the permanent chairman, the permanent secretary, or an inspector of votes at any meeting or meetings of security holders under the First Mortgage Indenture, or by the First Mortgage Trustee in the case of consents of such security holders which are sought without a meeting, which states what the signer thereof reasonably believes are the proportionate votes or consents of the holders of all securities (other than the First Mortgage Bonds) outstanding under the First Mortgage Indenture and counted for the purposes of determining whether such security holders have approved or consented to the matter put before them; provided, however, that the Trustee shall not so vote in favor of, or so consent to, any amendment or modification of the First Mortgage Indenture, which, if it were an amendment or modification of the Indenture, would require the consent of the Bondholders as described in the third paragraph under the heading “Summary of the Indenture – Supplemental Indenture,” without the prior consent and approval of Bondholders which would be so required; provided further that as a condition to the Trustee voting or giving such consent, the Trustee shall have received a certificate of a Company representative or an opinion of counsel, at its election, stating that such voting or consent is authorized or permitted by the Indenture.

### **Supplemental Indentures**

The Issuer and the Trustee may enter into indentures supplemental to the Indenture as shall not be inconsistent with the terms and provisions of the Indenture, without the consent of or notice to the Bondholders, in order (i) to cure any ambiguity or formal defect or omission in the Indenture, (ii) to grant to or confer upon the Trustee, as may lawfully be granted, additional rights, remedies, powers or authorities for the benefit of the Bondholders, (iii) to subject to the Indenture additional revenues, properties or collateral, (iv) to permit qualification of the Indenture under any federal statute or state blue sky law, (v) to add additional covenants and agreements of the Issuer for the protection of the Bondholders or to surrender or limit any rights, powers or authorities reserved to or conferred upon the Issuer, (vi) to make any other modification or change to the Indenture which, in the sole judgment of the Trustee, does not adversely affect the Trustee or any Bondholder, (vii) to make other amendments not otherwise permitted by (i), (ii), (iii), (iv) or (v) of this paragraph to provisions relating to federal income tax matters under the Code or other relevant provisions if, in the opinion of Bond Counsel, those amendments would not adversely affect the exclusion of the interest on the Bonds from gross income for

federal income tax purposes, (viii) to make any modification or change to the Indenture necessary to provide liquidity or credit support for the Bonds, including any modifications necessary to upgrade or maintain the then applicable ratings on the Bonds or (ix) to permit the issuance of the Bonds in other than book-entry-only form or to provide changes to or for the book-entry system.

Notwithstanding the foregoing, the Company, with the consent of the Trustee, may at any time further secure the Bonds by means of a letter of credit, other credit facility or other guarantee or collateral.

Exclusive of supplemental indentures for the purposes set forth in the preceding two paragraphs, the consent of registered owners holding a majority in aggregate principal amount of all Bonds then outstanding is required to approve any supplemental indenture, except no such supplemental indenture may permit, without the consent of all of the registered owners of the Bonds then outstanding, (i) an extension of the maturity of the principal of or the interest on any Bond issued under the Indenture or a reduction in the principal amount of any Bond or the rate of interest or time of redemption or redemption premium thereon, (ii) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, (iii) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental indenture or (iv) the deprivation of any registered owners of the lien of the Indenture.

If at any time the Issuer requests the Trustee to enter into any supplemental indenture requiring the consent of the registered owners of the Bonds, the Trustee, upon being satisfactorily indemnified with respect to expenses, must notify all such registered owners. Such notice must set forth the nature of the proposed supplemental indenture and must state that copies thereof are on file at the designated office of the Trustee for inspection. If, within sixty days (or such longer period as prescribed by the Issuer or the Company) following the giving of such notice, the registered owners holding the requisite amount of the Bonds outstanding have consented to the execution thereof, no Bondholder will have any right to object or question the execution thereof.

No supplemental indenture will become effective unless the Company consents to the execution and delivery of such supplemental indenture. The Company will be deemed to have consented to the execution and delivery of any supplemental indenture if the Trustee does not receive a notice of protest or objection signed by the Company on or before 4:30 p.m., local time in the city in which the designated office of the Trustee is located, on the fifteenth day after the mailing to the Company of a notice of the proposed changes and a copy of the proposed supplemental indenture.

### **Enforceability of Remedies**

The remedies available to the Trustee, the Issuer and the owners upon an Event of Default under the Loan Agreement, the Indenture or the First Mortgage Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, the remedies specified by the Loan Agreement, the Indenture and the First Mortgage Indenture may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by principles of equity, bankruptcy, reorganization, insolvency, moratorium or other similar laws affecting the rights of creditors generally.

### **Tax Treatment**

In the opinion of Bond Counsel, under existing law, including current statutes, regulations, administrative rulings and official interpretations, subject to the qualifications and exceptions set forth below, interest on the Bonds (i) will be excluded from the gross income of the recipients thereof for federal income tax purposes, except that no opinion will be expressed regarding such exclusion from

gross income with respect to any Bond during any period in which it is held by a “substantial user” of the Project or a “related person” as such terms are used in Section 147(a) of the Code and (ii) will not be an item of tax preference in determining alternative minimum taxable income for individuals and corporations under the Code. It is Bond Counsel’s further opinion that, subject to the assumptions stated in the preceding sentence, (i) interest on the Bonds will be excluded from gross income of the owners thereof for Kentucky income tax purposes and (ii) the Bonds will be exempt from all ad valorem taxes in Kentucky.

The opinion of Bond Counsel assumes and is conditioned on the payment and discharge of all of the 2002 Bonds on or before the 90th day following the date of issuance of the Bonds. The Company has agreed (i) to apply all of the proceeds of the bonds to the payment and discharge of the 2002 Bonds within 90 days following the date of issuance of the Bonds, (ii) to provide additional funds necessary, on or prior to a day within 90 days following the date of issuance of the Bonds, to defease and discharge the 2002 Bonds on such day and (iii) to give irrevocable instructions on the date of issuance of the Bonds to the trustee in respect of the 2002 Bonds directing the redemption of the 2002 Bonds.

The opinion of Bond Counsel as to the excludability of interest from gross income for federal income tax purposes will be based upon and will assume the accuracy of certain representations of facts and circumstances, including with respect to the Project, which are within the knowledge of the Company and compliance by the Company with certain covenants and undertakings set forth in the proceedings authorizing the Bonds which are intended to assure that the Bonds are and will remain obligations the interest on which is not includable in gross income of the recipients thereof under the law in effect on the date of such opinion. Bond Counsel will not independently verify the accuracy of the certifications and representations made by the Company and the Issuer. On the date of the opinion and subsequent to the original delivery of the Bonds, such representations of facts and circumstances must be accurate and such covenants and undertakings must continue to be complied with in order that interest on the Bonds be and remain excludable from gross income of the recipients thereof for federal income tax purposes under existing law. Bond Counsel will express no opinion (i) regarding the exclusion of interest on any Bond from gross income for federal income tax purposes on or after the date on which any change, including any interest rate conversion, permitted by the documents other than with the approval of Bond Counsel is taken which adversely affects the tax treatment of the Bonds or (ii) as to the treatment for purposes of federal income taxation of interest on the Bonds upon a Determination of Taxability.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes, some of which, including provisions for potential payments by the Issuer to the federal government, require future or continued compliance after issuance of the Bonds in order for the interest to be and to continue to be so excluded from the date of issuance. Noncompliance with certain of these requirements by the Company or the Issuer with respect to the Bonds could cause the interest on the Bonds to be included in gross income for federal income tax purposes and to be subject to federal income taxation retroactively to the date of their issuance. The Company and the Issuer will each covenant to take all actions required of each to assure that the interest on the Bonds will be and remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion.

The opinion of Bond Counsel as to the exclusion of interest on the Bonds from gross income for federal income tax purposes and federal tax treatment of interest on the Bonds will be subject to the following exceptions and qualifications:

- (i) Provisions of the Code applicable to corporations (as defined for federal income tax purposes) which impose an alternative minimum tax on a portion of the excess of adjusted

current earnings over other alternative minimum taxable income may subject a portion of the interest on the Bonds earned by certain corporations to such corporate alternative minimum tax. Such corporate alternative minimum tax does not apply to any S corporation, regulated investment company, real estate investment trust or REMIC.

(ii) The Code also provides for a “branch profits tax” which subjects to tax, at a rate of 30%, the effectively connected earnings and profits of a foreign corporation which engages in a United States trade or business. Interest on the Bonds would be includable in the amount of effectively connected earnings and profits and thus would increase the branch profits tax liability.

(iii) The Code also provides that passive investment income, including interest on the Bonds, may be subject to taxation for any S corporation with Subchapter C earnings and profits at the close of its taxable year if greater than 25% of its gross receipts is passive investment income.

Except as stated above, Bond Counsel will express no opinion as to any federal or Kentucky tax consequences resulting from the receipt of interest on the Bonds.

Owners of the Bonds should be aware that the ownership of the Bonds may result in collateral federal income tax consequences. For instance, the Code provides that property and casualty insurance companies will be required to reduce their loss reserve deductions by 15% of the tax-exempt interest received on certain obligations, such as the Bonds, acquired after August 7, 1986. (For purposes of the immediately preceding sentence, a portion of dividends paid to an affiliated insurance company may be treated as tax-exempt interest.) The Code further provides for the disallowance of any deduction for interest expenses incurred by banks and certain other financial institutions allocable to carrying certain tax-exempt obligations, such as the Bonds, acquired after August 7, 1986. The Code also provides that, with respect to taxpayers other than such financial institutions, such taxpayers will be unable to deduct any portion of the interest expenses incurred or continued to purchase or carry the Bonds. The Code also provides, with respect to individuals, that interest on tax-exempt obligations, including the Bonds, is included in modified adjusted gross income for purposes of determining the taxability of social security and railroad retirement benefits. Furthermore, the earned income tax credit is not allowed for individuals with an aggregate amount of disqualified income within the meaning of Section 32 of the Code, which exceeds \$2,200. Interest on the Bonds will be taken into account in the calculation of disqualified income. Prospective purchasers of the Bonds should consult their own tax advisors regarding such matters and any other tax consequences of holding the Bonds.

From time to time, there are legislative proposals in Congress which, if enacted, could alter or amend one or more of the federal tax matters referred to above or could adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to obligations (such as the Bonds) issued prior to enactment.

A draft of the opinion of Bond Counsel relating to the Bonds in substantially the form in which it is expected to be delivered on the date of issuance of the Bonds is attached as Appendix B to this Official Statement.

### **Legal Matters**

Certain legal matters incident to the authorization, issuance and sale by the Issuer of the Bonds are subject to the approving opinion of Bond Counsel. Bond Counsel has in the past, and may in the future, act as counsel to the Company with respect to certain matters. Certain legal matters will be passed upon for the Issuer by its County Attorney. Certain legal matters will be passed upon for the Company by Jones Day, Chicago, Illinois, and Gerald A. Reynolds, General Counsel, Chief Compliance Officer and Corporate Secretary for the Company. Certain legal matters will be passed upon for the Underwriters by their counsel, McGuireWoods LLP, Chicago, Illinois.

### **Underwriting**

Merrill Lynch, Pierce, Fenner & Smith Incorporated and PNC Capital Markets LLC (the “Underwriters”) have agreed, subject to the terms of the bond purchase agreement between the Issuer and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as representative of the Underwriters, to purchase the Bonds from the Issuer at the public offering price set forth on the cover page of this Official Statement. The Underwriters are committed to purchase all the Bonds if any Bonds are purchased. In connection with the underwriting of the Bonds, the Underwriters will be paid by the Company a fee in the amount of \$312,000, which excludes reimbursement for certain reasonable out-of-pocket expenses.

The Underwriters may offer and sell the Bonds to certain dealers and others at prices lower than the public offering price set forth on the cover page of this Official Statement. After the Bonds are released for sale to the public, the public offering price and other selling terms may from time to time be varied by the Underwriters.

In connection with the offering of the Bonds, the Underwriters may over-allot or effect transactions that stabilize or maintain the market prices of such Bonds at levels above those that might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

Pursuant to an Inducement Letter, the Company has agreed to indemnify the Underwriters and the Issuer against certain civil liabilities, including liabilities under the federal securities laws, or contribute to payments that the Underwriters or the Issuer may be required to make in respect thereof.

In the ordinary course of its business, the Underwriters and certain of their affiliates have in the past and may in the future engage in investment and commercial banking transactions with the Company, including the provision of certain advisory services to the Company.

### **Continuing Disclosure**

Because the Bonds will be special and limited obligations of the Issuer, the Issuer is not an “obligated person” for purposes of Rule 15c2-12 (the “Rule”) promulgated by the SEC under the Exchange Act, and does not have any continuing obligations thereunder. Accordingly, the Issuer will not provide any continuing disclosure information with respect to the Bonds or the Issuer.

In order to enable the Underwriters to comply with the requirements of the Rule, the Company will covenant in a continuing disclosure undertaking agreement to be delivered to the Trustee for the benefit of the holders of the Bonds (the “Continuing Disclosure Agreement”) to provide certain continuing disclosure for the benefit of the holders of the Bonds. Under its Continuing Disclosure Agreement, the Company will covenant to take the following actions:

(i) The Company will provide to the Municipal Securities Rulemaking Board (“MSRB”) (in electronic format) (a) annual financial information of the type set forth in Appendix A to this Official Statement (including any information incorporated by reference in Appendix A) and (b) audited financial statements prepared in accordance with generally accepted accounting principles, in each case not later than 120 days after the end of the Company’s fiscal year.

(ii) The Company will file in a timely manner not in excess of 10 business days after the occurrence of the event with the MSRB notice of the occurrence of any of the following events (if applicable) with respect to the Bonds: (a) principal and interest payment delinquencies; (b) non-payment related defaults, if material; (c) any unscheduled draws on debt service reserves reflecting financial difficulties; (d) unscheduled draws on credit enhancement facilities reflecting financial difficulties; (e) substitution of credit or liquidity providers, or their failure to perform; (f) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (g) modifications to rights of the holders of the Bonds, if material; (h) the giving of notice of optional or unscheduled redemption of any Bonds, if material, and tender offers; (i) defeasance of the Bonds or any portion thereof; (j) release, substitution, or sale of property securing repayment of the Bonds, if material; (k) rating changes; (l) bankruptcy, insolvency, receivership or similar event of the Company; (m) the consummation of a merger, consolidation or acquisition involving the Company, or the sale of all or substantially all of the assets of the Company, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (n) appointment of a successor or additional trustee or a change of name of a trustee, if material.

(iii) The Company will file in a timely manner with the MSRB notice of a failure by the Company to file any of the information referred to in paragraph (i) above by the due date.

The Company may amend its Continuing Disclosure Agreement (and the Trustee shall agree to any amendment so requested by the Company that does not change the duties of the Trustee thereunder) or waive any provision thereof, but only with a change in circumstances that arises from a change in legal requirements, change in law, or change in the nature or status of the Company with respect to the Bonds or the type of business conducted by the Company; provided that the undertaking, as amended or following such waiver, would have complied with the requirements of the Rule on the date of issuance of the Bonds, after taking into account any amendments to the Rule as well as any change in circumstances, and the amendment or waiver does not materially impair the interests of the holders of the Bonds to which such undertaking relates, in the opinion of the Trustee or counsel expert in federal securities laws acceptable to both the Company and the Trustee, or is approved by the Beneficial Owners of a majority in aggregate principal amount of the outstanding Bonds. The Company acknowledges that its undertakings pursuant to the Rule described under this heading are intended to be for the benefit of the holders of the Bonds and shall be enforceable by the holders of those Bonds or by the Trustee on behalf of such holders. Any breach by the Company of these undertakings pursuant to the Rule will not constitute an event of default under the Indenture, the Loan Agreement or the Bonds.

The Company is a party to continuing disclosure agreements with respect to 6 series of pollution control bonds. The MSRB’s Electronic Municipal Market Access website reflects that within the past five years the Company did not timely file certain information in connection with a December 2014 downgrade of credit ratings for four series of Company pollution control bonds resulting from the downgrade of the bank providing the letters of credit supporting such bonds. Moody’s Investors Service,



Inc. downgraded the long-term rating of the four Company pollution control bonds on December 2, 2014. The Company was not aware of the downgrade until February 10, 2015 and filed the required disclosures on February 11, 2015. The Company has had, and continues to have, procedures in place in order to make material event notices and financial statement filings on an ongoing basis.

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This Official Statement has been duly approved, executed and delivered by the County Judge/Executive of the Issuer, on behalf of the Issuer. However, the Issuer has not and does not assume any responsibility as to the accuracy or completeness of any of the information in this Official Statement except for information furnished by the Issuer under the heading "The Issuer."

COUNTY OF CARROLL, KENTUCKY

By: /s/ Bobby Lee Westrick  
County Judge/Executive

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Appendix A

**Kentucky Utilities Company**

Kentucky Utilities Company ("KU"), incorporated in Kentucky in 1912 and in Virginia in 1991, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. As of December 31, 2015, KU provided electricity to approximately 518,000 customers in 77 counties in central, southeastern and western Kentucky, approximately 28,000 customers in five counties in southwestern Virginia and fewer than 10 customers in Tennessee. KU's service area covers approximately 4,800 non-contiguous square miles. KU's coal-fired electric generating stations produce most of KU's electricity. The remainder is generated by natural gas fueled combined cycle combustion turbines, a hydroelectric power plant and natural gas and oil fueled combustion turbines. In Virginia, KU operates under the name Old Dominion Power Company. KU also sells wholesale electric energy to 11 municipalities.

KU is a wholly-owned subsidiary of LG&E and KU Energy LLC and an indirect wholly-owned subsidiary of PPL Corporation. KU's affiliate, Louisville Gas and Electric Company ("LG&E"), is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy and natural gas in Kentucky. KU's obligations under the Loan Agreement are solely its own, and not those of any of its affiliates. None of LG&E, PPL Corporation or KU's other affiliates will be obligated to make any payment on the Loan Agreement or the Bonds.

The information above concerning KU is only a summary and does not purport to be comprehensive. Additional information regarding KU, including audited financial statements, is available in the documents listed under the heading "Documents Incorporated by Reference," which documents are incorporated by reference herein.

**Selected Financial Data**  
(Dollars in millions)

	<b>Six Months Ended June 30, 2016</b>	<b>Six Months Ended June 30, 2015</b>	<b>Year Ended December 31, 2015</b>	<b>Year Ended December 31, 2014</b>	<b>Year Ended December 31, 2013</b>
Operating revenues	\$ 860	\$ 881	\$ 1,728	\$ 1,737	\$ 1,635
Operating income	\$ 257	\$ 225	\$ 455	\$ 433	\$ 433
Net income	\$ 129	\$ 117	\$ 234	\$ 220	\$ 228
Total assets <sup>(1)</sup>	\$ 8,070	\$ 7,853	\$ 8,011	\$ 7,701	\$ 7,147
Long-term debt obligations (including amounts due within one year) <sup>(1)</sup>	\$ 2,327	\$ 2,080	\$ 2,326	\$ 2,079	\$ 2,078
Ratio of earnings to fixed charges <sup>(2)</sup>	5.3	5.7	5.3	5.4	5.9

## Capitalization:

	<u>June 30, 2016</u>	<u>% of Capitalization</u>
Long-term debt and notes payable	\$ 2,356	41%
Common equity	3,322	59%
Total capitalization	<u>\$ 5,678</u>	<u>100%</u>

<sup>(1)</sup> Effective December 31, 2015, KU retrospectively adopted accounting guidance to simplify the presentation of debt issuance costs. The guidance requires certain debt issuance costs to be presented on the balance sheet as a direct deduction from the carrying amount of the associated debt liability. As a result, all periods reported in the December 31, 2015 Form 10-K reflected the retrospective adoption of this guidance. Amounts reported in the table above for June 30, 2015 and December 31, 2013, also reflect retrospective reclassifications from other noncurrent assets to long-term debt of \$11 million and \$13 million, respectively.

Additionally, effective October 1, 2015, KU retrospectively adopted accounting guidance to simplify the presentation of deferred taxes which requires that deferred tax assets and deferred tax liabilities be classified as noncurrent on the balance sheet. As a result, all periods reported in the December 31, 2015 Form 10-K reflected the retrospective adoption of this guidance. Amounts reported in the table above for June 30, 2015 and December 31, 2013, also reflect retrospective reclassifications from other current assets to noncurrent deferred tax liabilities of \$20 million and \$3 million, respectively.

<sup>(2)</sup> For purposes of this ratio, "Earnings" consist of earnings (as defined below) from continuing operations plus fixed charges. Fixed charges consist of all interest on indebtedness, amortization of debt discount and expense and the portion of rental expense that represents an imputed interest component. Earnings from continuing operations consist of income before taxes and the mark-to-market impact of derivative instruments.

The selected financial data presented above for the three fiscal years ended December 31, 2015, and as of December 31 for each of those years, have been derived from the Company's audited financial

statements. The selected financial data presented above for the six months ended June 30, 2016 and 2015 have been derived from the Company's unaudited financial statements for the six months ended June 30, 2016 and 2015. The Company's audited financial statements for the three fiscal years ended December 31, 2015, and as of December 31 for each of those years, are included in the Company's Form 10-K for the year ended December 31, 2015 incorporated by reference herein. The Company's unaudited financial statements for the six months ended June 30, 2016 are included in the Company's Form 10-Q for the quarter ended June 30, 2016 incorporated by reference herein. "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Form 10-K for the year ended December 31, 2015 and "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Form 10-Q for the quarter ended June 30, 2016, as well as the Combined Notes to Financial Statements as of December 31, 2015, 2014 and 2013 and the Combined Notes to Condensed Financial Statements (Unaudited) as of June 30, 2016 and December 31, 2015 and for the six-month periods ended June 30, 2016 and 2015, should be read in conjunction with the above information. Ernst & Young LLP audited the Company's financial statements for the three fiscal years ended December 31, 2015.

### **Risk Factors**

Investing in the Bonds involves risk. Please see the risk factors in KU's Annual Report on Form 10-K for the year ended December 31, 2015, which is incorporated by reference in this Appendix A. Before making an investment decision, you should carefully consider these risks as well as the other information contained or incorporated by reference in this Appendix A. Risks and uncertainties not presently known to KU or that KU currently deems immaterial may also impair its business operations, its financial results and the value of the Bonds.

### **Available Information**

KU is subject to the information requirements of the Securities Exchange Act of 1934, as amended, and, accordingly, files reports and other information with the Securities and Exchange Commission (the "SEC"). Such reports and other information on file can be inspected and copied at the public reference facilities of the SEC, currently at 100 F Street, N.E., Room 1580, Washington, DC 20549; or from the SEC's Web Site (<http://www.sec.gov>). Please call the SEC at 1-800-SEC-0330 for further information on the public reference room.

### **Documents Incorporated by Reference**

The following documents, as filed by KU with the SEC, are incorporated herein by reference:

1. Form 10-K Annual Report of KU for the year ended December 31, 2015;
2. Form 10-Q Quarterly Reports of KU for the quarters ended March 31, 2016 and June 30, 2016; and
3. Form 8-K Current Reports of KU filed with the SEC on January 12, 2016, February 3, 2016 and June 17, 2016.

All documents filed by KU with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 subsequent to the date of this Official Statement and prior to the termination of the offering of the Bonds shall be deemed to be incorporated by reference in this Appendix and to be made a part hereof from their respective dates of filing. Any statement contained in a document incorporated or deemed to be incorporated by reference in this Official Statement shall be deemed to be

modified or superseded for purposes of this Official Statement to the extent that a statement contained in this Official Statement or in any other subsequently filed document which also is or is deemed to be incorporated by reference in this Official Statement modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

**KU hereby undertakes to provide without charge to each person (including any beneficial owner) to whom a copy of this Official Statement has been delivered, on the written or oral request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated in this Official Statement by reference, other than certain exhibits to such documents. Requests for such copies should be directed to Treasurer, Kentucky Utilities Company, One Quality Street, Lexington, Kentucky 40507, telephone: (859) 255-2100.**

## Appendix B

## (Form of Opinion of Bond Counsel)

August \_\_, 2016

**Re: \$96,000,000 County of Carroll, Kentucky, Pollution Control Revenue Refunding Bonds, 2016 Series A (Kentucky Utilities Company Project)**

We hereby certify that we have examined certified copies of the proceedings of record of the County of Carroll, Kentucky (the “**County**”), acting by and through its Fiscal Court as its duly authorized governing body, preliminary to and in connection with the issuance by the County of its Pollution Control Revenue Refunding Bonds, 2016 Series A (Kentucky Utilities Company Project), dated their date of issuance, in the aggregate principal amount of \$96,000,000 (the “**2016 Series A Bonds**”). The 2016 Series A Bonds are issued under the provisions of Sections 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes (the “**Act**”), for the purpose of providing funds which will be used, with other funds provided by Kentucky Utilities Company (the “**Company**”) for the current refunding of \$96,000,000 aggregate principal amount of the County’s Pollution Control Revenue Bonds, 2002 Series C (Kentucky Utilities Company Project), dated October 3, 2002 (the “**Refunded 2002 Series C Bonds**”), which were issued for the purpose of currently refunding a portion of the costs of construction of air and water pollution control facilities and solid waste disposal facilities serving certain electric generating units of the Company located in Carroll County, Kentucky (the “**Project**”), as provided by the Act.

The 2016 Series A Bonds mature on September 1, 2042 and bear interest initially at the Long Term Rate, as defined in the Indenture, hereinafter described, subject to change as provided in such Indenture. The 2016 Series A Bonds will be subject to optional and mandatory redemption prior to maturity at the times, in the manner, and upon the terms set forth in the 2016 Series A Bonds. From such examination of the proceedings of the Fiscal Court of the County referred to above and from an examination of the Act, we are of the opinion that the County is duly authorized and empowered to issue the 2016 Series A Bonds under the laws of the Commonwealth of Kentucky now in force.

We have examined an executed counterpart of a certain Loan Agreement, dated as of August 1, 2016 (the “**Loan Agreement**”), by and between the County and the Company and a certified copy of the proceedings of record of the Fiscal Court of the County preliminary to and in connection with the execution and delivery of the Loan Agreement, pursuant to which the County has agreed to issue the 2016 Series A Bonds and to lend the proceeds thereof to the Company to provide funds to pay and discharge, with other funds provided by the Company, the Refunded 2002 Series C Bonds. The Company has agreed to make loan payments to the Trustee at times and in amounts fully adequate to pay maturing principal of, interest on, and redemption premium, if any, on the 2016 Series A Bonds as same become due and payable. From such examination, we are of the opinion that such proceedings of the Fiscal Court of the County show lawful authority for the execution and delivery of the Loan Agreement; that the Loan Agreement has been duly authorized, executed, and delivered by the County; and that the Loan Agreement is a legal, valid, and binding obligation of the County, enforceable in accordance with its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency, or other similar laws affecting creditors’ rights generally, including equitable provisions where equitable remedies are sought.



We have also examined an executed counterpart of a certain Indenture of Trust, dated as of August 1, 2016 (the “**Indenture**”), by and between the County and U.S. Bank National Association, as trustee (the “**Trustee**”), securing the 2016 Series A Bonds and setting forth the covenants and undertakings of the County in connection with the 2016 Series A Bonds and a certified copy of the proceedings of record of the Fiscal Court of the County preliminary to and in connection with the execution and delivery of the Indenture. Pursuant to the Indenture, certain of the County’s rights under the Loan Agreement, including the right to receive payments thereunder, and all moneys and securities held by the Trustee in accordance with the Indenture (except moneys and securities in the Rebate Fund created thereby) have been assigned to the Trustee, as security for the holders of the 2016 Series A Bonds. From such examination, we are of the opinion that such proceedings of the Fiscal Court of the County show lawful authority for the execution and delivery of the Indenture; that the Indenture has been duly authorized, executed, and delivered by the County; and that the Indenture is a legal, valid, and binding obligation upon the parties thereto according to its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency, or other similar laws affecting creditors’ rights generally, including equitable provisions where equitable remedies are sought.

In our opinion the 2016 Series A Bonds have been validly authorized, executed, and issued in accordance with the laws of the Commonwealth of Kentucky now in full force and effect, and constitute legal, valid, and binding special and limited obligations of the County entitled to the benefit of the security provided by the Indenture and enforceable in accordance with their terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency, or other similar laws affecting creditors’ rights generally, including equitable provisions where equitable remedies are sought. The 2016 Series A Bonds are payable by the County solely and only from payments and other amounts derived from the Loan Agreement and as provided in the Indenture.

In our opinion, under existing laws, including current statutes, regulations, administrative rulings, and official interpretations by the Internal Revenue Service, subject to the exceptions and qualifications contained in the succeeding paragraphs, (i) interest on the 2016 Series A Bonds is excluded from the gross income of the recipients thereof for federal income tax purposes, except that no opinion is expressed regarding such exclusion from gross income with respect to any 2016 Series A Bond during any period in which it is held by a “substantial user” of the Project or a “related person,” as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the “**Code**”); and (ii) interest on the 2016 Series A Bonds is not a separate item of tax preference in determining alternative minimum taxable income for individuals and corporations under the Code. In arriving at this opinion, we have relied upon representations, factual statements, and certifications of the Company with respect to certain material facts which are solely within the Company’s knowledge in reaching our conclusion, among other things, that all of the proceeds of the Refunded 2002 Series C Bonds were used to refinance air and water pollution control facilities and solid waste disposal facilities qualified for financing under Section 103(b)(4)(E) and (F) of the Internal Revenue Code of 1954, as amended, and Section 1313(a) of the Tax Reform Act of 1986. Further, in arriving at the opinion set forth in this paragraph as to the exclusion from gross income of interest on the 2016 Series A Bonds, we have assumed and this opinion is conditioned on, the accuracy of and continuing compliance by the Company and the County with representations and covenants set forth in the Loan Agreement and the Indenture which are intended to assure compliance with certain tax-exempt interest provisions of the Code. Such representations and covenants must be accurate and must be complied with after the issuance of the 2016 Series A Bonds in order that interest on the 2016 Series A Bonds be excluded from gross income for federal income tax purposes. Failure to comply with certain of such representations and covenants in respect of the 2016 Series A Bonds after the issuance of the 2016 Series A Bonds could cause the interest thereon to be included in gross income for federal income tax purposes retroactively to the date of issuance of the 2016 Series A Bonds. We express no opinion (i) regarding the exclusion of interest on any 2016 Series A Bond from gross income for federal income tax purposes on or after the date on which any change, including any interest rate

conversion, permitted by the documents (other than with approval of this firm) is taken which adversely affects the tax treatment of the 2016 Series A Bonds; or (ii) as to the treatment for purposes of federal income taxation of interest on the 2016 Series A Bonds upon a Determination of Taxability. We are further of the opinion that interest on the 2016 Series A Bonds is excluded from gross income of the recipients thereof for Kentucky income tax purposes and that the 2016 Series A Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and all political subdivisions thereof.

Our opinion as to the exclusion of interest on the 2016 Series A Bonds from gross income for federal income tax purposes and federal tax treatment of interest on the 2016 Series A Bonds is further subject to the following exceptions and qualifications:

(a) Provisions of the Code applicable to corporations (as defined for federal income tax purposes) which impose an alternative minimum tax on a portion of the excess of adjusted current earnings over other alternative minimum taxable income may subject a portion of the interest on the 2016 Series A Bonds earned by certain corporations to such corporate alternative minimum tax. Such corporate alternative minimum tax does not apply to any S corporation, regulated investment company, real estate investment trust, or REMIC.

(b) The Code provides for a “branch profits tax” which subjects to tax, at a rate of 30%, the effectively connected earnings and profits of a foreign corporation which engages in a United States trade or business. Interest on the 2016 Series A Bonds would be includable in the amount of effectively connected earnings and profits and thus would increase the branch profits tax liability.

(c) The Code also provides that passive investment income, including interest on the 2016 Series A Bonds, may be subject to taxation for any S corporation with Subchapter C earnings and profits at the close of its taxable year if greater than 25% of its gross receipts is passive investment income.

Except as stated above, we express no opinion as to any federal or Kentucky tax consequences resulting from the receipt of interest on the 2016 Series A Bonds.

Holders of the 2016 Series A Bonds should be aware that the ownership of the 2016 Series A Bonds may result in collateral federal income tax consequences. For instance, the Code provides that, for taxable years beginning after December 31, 1986, property and casualty insurance companies will be required to reduce their loss reserve deductions by 15% of the tax-exempt interest received on certain obligations, such as the 2016 Series A Bonds, acquired after August 7, 1986. (For purposes of the immediately preceding sentence, a portion of dividends paid to an affiliated insurance company may be treated as tax-exempt interest.) The Code further provides for the disallowance of any deduction for interest expenses incurred by banks and certain other financial institutions allocable to carrying certain tax-exempt obligations, such as the 2016 Series A Bonds, acquired after August 7, 1986. The Code also provides that, with respect to taxpayers other than such financial institutions, such taxpayers will be unable to deduct any portion of the interest expenses incurred or continued to purchase or carry the 2016 Series A Bonds. The Code also provides, with respect to individuals, that interest on tax-exempt obligations, including the 2016 Series A Bonds, is included in modified adjusted gross income for purposes of determining the taxability of social security and railroad retirement benefits. Furthermore, the earned income credit is not allowed for individuals with an aggregate amount of disqualified income within the meaning of Section 32 of the Code, which exceeds \$2,200. Interest on the 2016 Series A Bonds will be taken into account in the calculation of disqualified income.

We have received opinions of Gerald A. Reynolds, General Counsel, Chief Compliance Officer, and Corporate Secretary of the Company and Jones Day, Chicago, Illinois, counsel to the Company, of even date herewith. In rendering this opinion, we have relied upon said opinions with respect to the

matters therein. We have also received an opinion of even date herewith of Hon. Nicholas Marsh, County Attorney of Carroll County, Kentucky, and relied upon said opinion with respect to the matters therein. The opinions are in forms satisfactory to us as to both scope and content.

We express no opinion as to the title to, the description of, or the existence or priority of any liens, charges, or encumbrances on the Project.

In rendering the foregoing opinions, we are passing upon only those matters specifically set forth in such opinions and are not passing upon the investment quality of the 2016 Series A Bonds or the accuracy or completeness of any statements made in connection with any offer or sale thereof. The opinions herein are expressed as of the date hereof and we assume no obligation to supplement or update such opinions to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

We are members of the Bar of the Commonwealth of Kentucky and do not purport to be experts on the laws of any jurisdiction other than the Commonwealth of Kentucky and the United States of America, and we express no opinion as to the laws of any jurisdiction other than those specified.

Respectfully submitted,

STOLL KEENON OGDEN PLLC

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