Robert Hevert

Volume 2B

Direct Testimony and Supporting Schedules:

Robert B. Hevert

Return on Equity

Direct Testimony and Schedules

Robert B. Hevert

Before the South Dakota Public Utilities Commission

In the Matter of the Application of Otter Tail Power Company

For Authority to Increase Rates for Electric Utility

Service in South Dakota

Docket No. _____

Exhibit___

Return on Equity

August 20, 2010

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I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Robert B. Hevert. My business address is 293 Boston Post Road West, Suite 500, Marlborough, Massachusetts 01752.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT POSITION?

A. I am employed by Concentric Energy Advisors ("Concentric") as its President.

Q. ON WHOSE BEHALF ARE YOU SUBMITTING THIS TESTIMONY?

A. I am submitting this testimony on behalf of Otter Tail Power Company ("OTP" or the "Company"), a wholly-owned subsidiary of Otter Tail Corporation ("OTC").

Q. PLEASE BRIEFLY OUTLINE YOUR RESPONSIBILITIES AS PRESIDENT OF CONCENTRIC.

A. In addition to providing consulting services, my responsibilities at Concentric include the day-to-day management of the firm and, along with other senior officers, the development of the firm's resources and capabilities, the development of new business and clients, and assuring the quality of services delivered to our firm's clients.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

A. I hold a Bachelors degree in Business and Economics from the University of Delaware, and a Master's of Business Administration with a concentration in Finance from the University of Massachusetts. In addition, I hold the Chartered Financial Analyst designation.

Q. PLEASE DESCRIBE YOUR EXPERIENCE IN THE ENERGY AND UTILITY INDUSTRIES.

A. Concentric provides financial and economic advisory services to a large number of energy and utility clients across North America. Our regulatory economic and market analysis services include utility ratemaking and regulatory advisory services; energy

market assessments; market entry and exit analysis; corporate and business unit strategy development; and energy contract negotiations. We also provide litigation support services on a wide range of financial and economic issues for clients throughout North America. Our financial advisory activities include merger, acquisition and divestiture assignments, due diligence and valuation assignments, project and corporate finance services, and transaction support services. In the context of Concentric's financial advisory practice, I have advised numerous energy and utility clients on a wide range of financial and economic issues including both asset and corporate-based transactions. Many of those assignments have included the determination of the cost of capital for valuation purposes. I have included my résumé as Exhibit __(RBH-1), Schedule 1, and a summary of testimony that I have filed in other proceedings as Exhibit __(RBH-1), Schedule 2.

II. PURPOSE AND OVERVIEW OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The purpose of my Direct Testimony is to present evidence and provide a recommendation regarding the Company's return on equity ("ROE"), and to provide an assessment of the capital structure to be used for ratemaking purposes, as proposed in the Direct Testimony of Mr. Kevin G. Moug. My analyses and recommendations are supported by the data presented in Exhibit __ (RBH-1), Schedules 3 through 11.

Q. WHAT ARE YOUR CONCLUSIONS REGARDING THE APPROPRIATE COST OF EQUITY AND OVERALL RATE OF RETURN FOR THE COMPANY?

A. The Company is requesting an ROE of 11.25 percent in this proceeding. Based on the analyses discussed throughout the balance of my testimony, it is my view that the appropriate ROE for the Company is in the range of 11.00 percent to 11.50 percent. While certain risks would support an ROE above the midpoint of the range of results, I find the Company's requested ROE to be reasonable, if not conservative. As such, I recommend that the South Dakota Public Utilities Commission (the "Commission") authorize OTP the opportunity to earn an ROE of 11.25 percent. I also have

concluded that the Company's projected test year capital structure, which includes 53.22 percent common equity and 46.78 percent long-term debt, is reasonable.

Q. PLEASE PROVIDE A BRIEF OVERVIEW OF THE ANALYSIS THAT LED TO YOUR CONCLUSIONS.

A. In light of recent capital market conditions, and given the fact that equity analysts and investors tend to use multiple methodologies in developing their return requirements, it is extremely important to consider the results of several analytical approaches in determining the Company's ROE. It is also important to consider a range of factors, both quantitative and qualitative, in arriving at an ROE determination. As a result, while my recommended ROE is based primarily on the results of the Constant Growth Discounted Cash Flow ("DCF") model, I also considered the results of the Capital Asset Pricing Model ("CAPM"), and the Risk Premium approach.

In applying and assessing the results of my DCF, CAPM, and Risk Premium analyses, I considered several specific risks and trends, including the Company's substantial capital expenditure plan. I also considered the Company's concentration of customers, absence of economic diversity, and small size relative to a proxy group of comparable companies in arriving at my ROE recommendation. While I did not make a specific adjustment for any of these factors, they should be considered when determining where, within a reasonable range of returns, the Company's ROE rightly falls. Finally, I considered the flotation costs associated with equity issuances.

I also considered the Company's proposed capital structure within the context of its pending capital expenditures, general industry trends and proxy group norms. Based on that review, I concluded that the Company's proposed capital structure is reasonable.

Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?

A. The remainder of my testimony is organized in seven sections. In Section III, I discuss the regulatory guidelines and financial considerations pertinent to the

development of the rate of return. Section IV provides an overview of current market conditions and the influence of these conditions on the recommended ROE. Section V explains my selection of a proxy group of integrated electric utilities. Section VI explains my analysis and recommendation of the appropriate ROE for OTP. Section VII provides a discussion of the business and economic risks to which OTP is exposed. Section VIII provides my assessment of the Company's proposed capital structure, and Section IX summarizes my conclusions and recommendations.

III. REGULATORY GUIDELINES AND FINANCIAL CONSIDERATIONS

Q. PLEASE DESCRIBE THE GUIDING PRINCIPLES TO BE USED IN ESTABLISHING THE COST OF CAPITAL FOR A REGULATED UTILITY.

A. The United States Supreme Court's precedent-setting *Hope* and *Bluefield* cases established the standards for determining the fairness or reasonableness of a utility's allowed ROE. Among the standards established by the Court in those cases are: (1) consistency with other businesses having similar or comparable risks; (2) adequacy of the return to support financial soundness and access to capital; and (3) that the end results as opposed to the methodology employed is the controlling factor in arriving at just and reasonable rates.[1]

Based on those widely recognized standards, the Commission's order in this case should provide OTP with the opportunity to earn an ROE that is:

- Adequate to attract capital on favorable terms, thereby enabling OTP to provide safe, reliable service;
- Sufficient to ensure the financial soundness of OTP's operations; and
- Commensurate with returns on investments in enterprises having comparable risks.

[1] *Bluefield Waterworks & Improvement Co., v. Public Service Commission of West Virginia,* 262 U.S. 679 (1923); *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944).

The allowed ROE therefore should enable OTP to finance capital expenditures on reasonable terms and optimize its financial flexibility over the period during which rates are expected to remain in effect.

Q. WHY IS IT IMPORTANT FOR A UTILITY TO BE ALLOWED THE OPPORTUNITY TO EARN A RETURN ADEQUATE TO ATTRACT CAPITAL AT REASONABLE TERMS?

A. There is a long history of precedent supporting the need for a reasonable ROE in establishing just and reasonable rates for utility services. Among the themes common to federal court, state court and agency decisions is the principle that a utility's cost of capital must be reflective of other enterprises having comparable risks, acting independently in the financial markets. An ROE that is adequate to attract capital at reasonable terms enables the Company to provide safe, reliable electric service while maintaining its financial integrity. To the extent the Company is provided the opportunity to earn its market-based cost of capital, neither customers nor shareholders are disadvantaged.

While the "capital attraction" and "financial integrity" standards are important principles in normal economic conditions, the practical implications of those standards are even more pronounced based on the recent financial environment. As discussed in more detail in Section IV, those market conditions have intensified the importance of maintaining a strong financial profile. Consequently, the Commission's order in this proceeding will have a particular effect on the Company's ability to attract capital, achieve its capital expenditure plan, and maintain its financial integrity.

Q. WHAT ARE YOUR CONCLUSIONS REGARDING REGULATORY GUIDELINES AND CAPITAL MARKET EXPECTATIONS?

A. It is important for the ROE authorized in this proceeding to take into consideration the capital market conditions with which the Company must contend, as well as investors' expectations and requirements for both risks and returns. Further, in light of recent capital market conditions and the Company's capital investment plans, it is especially

important that OTP be afforded the opportunity to maintain a financial profile that will enable the Company to access the capital markets at reasonable rates. As discussed throughout my testimony, an important factor in achieving that profile is the ability to earn a reasonable ROE.

IV. CAPITAL MARKET ENVIRONMENT

Q. HOW DO ECONOMIC CONDITIONS INFLUENCE THE REQUIRED COST OF CAPITAL AND REQUIRED RETURN ON COMMON EQUITY?

A. The required cost of capital, including the ROE, is a function of prevailing and expected financial market conditions. Consistent with the *Hope* and *Bluefield* decisions, the authorized ROE for a public utility should allow the company to attract investor capital at reasonable cost under a variety of economic and financial market conditions. The ability to attract capital on reasonable terms is especially important for utilities such as OTP that plan to invest considerable amounts of capital in investments designed to maintain and enhance system reliability. As such, the Commission's order regarding both the ROE and the capital structure will have a direct bearing on the Company's financial profile and, therefore, its ability to attract capital at reasonable terms.

Q. HOW HAVE RECENT CAPITAL MARKET CONDITIONS AFFECTED THE AVAILABILITY AND COST OF CAPITAL?

A. The widely discussed financial market crisis and the following recession led to a general decrease in the availability, and an increase in the cost, of both debt and equity capital for all market sectors, including utilities. While those conditions have moderated recently, financial and capital market conditions have imposed significant challenges on the financing of capital expenditure programs, as demonstrated in the direct testimony of Mr. Moug.

While investors are concerned with capital market issues and risks in general, they continue also to be concerned with risks facing regulated utilities. As KeyBanc

Capital Markets Inc. ("KeyBanc") recently observed in its *Electric Utilities Quarterly* for the first quarter of 2010:

> Although capital markets have improved since early 2009, liquidity and capital costs remain a concern, as costs for credit have generally become more expensive and available durations have shrunk. Higher interest costs will likely continue to pressure earnings until regulatory lag is better addressed. The compression of stock price valuation multiples in the sector has also negatively impacted the equity financing of capital expenditures, as many names are trading below book value."[2]

As a consequence, utilities have rather significantly under-performed the broad market over the past several months. In fact, since the beginning of 2009, which includes the broad market rally that began in March of that year, the Dow Jones Industrial Average increased by 11.37 percent, while the proxy group average increased only 6.37 percent, and the Dow Jones Utility Index declined 3.51 percent (*see* Table 1, below).

Table 1: Dow Jones Industrial Average, Dow Jones Utility Average, and Proxy Group Average Price Performance (December 31, 2008 – June 30, 2010)

	DJIA	DJUA	Proxy Group Average
2009-2010	11.37%	(3.51)%	6.37%

[2] KeyBanc Capital Markets Inc. Equity Research, *Electric Utilities Quarterly 1Q10*, June 2010, at 7.

Q. HOW HAVE OTHER UTILITIES RESPONDED TO THESE FINANCIAL MARKET CONDITIONS?

A. In general, utilities have responded by adjusting their financing strategies and optimizing the financial liquidity derived from internal operations. In addition, utilities are continuing to focus on strengthening their balance sheets, maintaining liquidity, and searching for additional sources of capital. In order to do so, they have placed a high priority on managing internal cash flows, containing both operating and capital costs, and allocating capital to jurisdictions and operations with higher expected returns.

Q. WHAT CONCLUSIONS DO YOU DRAW REGARDING THE CAPITAL MARKET ENVIRONMENT?

A. First, it is important to recognize that the assessment of market conditions must be made in the context of multiple indices, since any single measure may provide incomplete or misleading conclusions. It would be inappropriate, for example, to view the current level of Treasury yields as indicative of a lower cost of capital when the equity markets continue to experience heightened levels of volatility.[3] Moreover, in light of the recent capital market dislocation, it is extremely important to assess the reasonableness of financial model results in the context of observable market data. To the extent that certain estimates are incompatible with such benchmarks, or inconsistent with basic financial principles, it is appropriate to consider whether alternative estimation techniques are likely to provide more meaningful and reliable results.

[3] As discussed in Section VI, current and expected market volatility remains meaningfully above historical levels.

V. USE OF PROXY GROUP COMPANIES

Q. PLEASE EXPLAIN WHY YOU HAVE USED A GROUP OF PROXY COMPANIES TO DETERMINE THE COST OF EQUITY FOR OTP.

A. First, it is important to bear in mind that the cost of equity for a given enterprise depends on the risks attendant to the business in which the company is engaged. According to financial theory, the value of a given company is equal to the aggregate market value of its constituent business units. In this proceeding, we are focused on estimating the cost of equity for OTP, a rate-regulated, wholly-owned subsidiary of OTC. Since the ROE is a market-based concept, and given that OTP is not publicly traded, it is necessary to establish a group of companies that are both publicly traded and comparable to OTP in certain fundamental business and financial respects to serve as its "proxy" in the ROE estimation process.

Even if OTP were a publicly traded entity, it is possible that transitory events could bias its market value in one way or another over a given period of time. A significant benefit of using a proxy group, therefore, is that it serves to attenuate the effects of anomalous events that may be associated with any one company. The proxy companies used in my analyses all possess a set of operating and risk characteristics that are substantially comparable to OTP, and thus provide a reasonable basis for the derivation and assessment of ROE estimates for OTP.

Q. PLEASE PROVIDE A SUMMARY PROFILE OF OTP.

A. OTP provides electric production, transmission, and distribution services to approximately 11,700 customers in South Dakota,[4] and is an active participant in the Midwest Independent Transmission System Operator ("MISO") markets.[5] OTP's current Long-Term Issuer rating issued by S&P is BBB-, by Fitch Ratings is BBB, and

[4] The company also provides electric utility services to 60,600 customers in Minnesota and 57,000 customers in North Dakota.

[5] Otter Tail Corporation, SEC Form 10-K, December 31, 2009, at 2.

by Moody's Investor Service is A3.[6] Table 2 provides relevant utility financial and operating statistics for OTP for the most recent three years.

Table 2: Otter Tail Power Company - 2007 to 2009[7] Utility Operating and Financial Results

$ IN THOUSANDS	**2007**	**2008**	**2009**
Operating Margin	$74,584	$89,234	$91,731
Net Utility Operating Income	$30,342	$40,592	$47,891
Net Utility Plant[8]	$582,442	$737,792	$820,114
Average Electric Sales Customers	129,175	129,281	129,267
Total Sales of Electricity (MWh)	7,667,232	8,970,993	6,201,911
Capital Expenditures[9]	$104,288	$198,798	$145,787

Q. HOW DID YOU SELECT THE COMPANIES INCLUDED IN YOUR PROXY GROUP?

A. With the objective of selecting a proxy group that is highly representative of the risks and prospects faced by OTP, I began with the companies that Value Line classifies as "Electric Utilities", which comprise a group of 54 domestic U.S. utilities. I then simultaneously applied the following screening criteria:

- I excluded companies that do not pay consistent quarterly cash dividends.
- I selected companies whose Betas from Value Line and Bloomberg fall within one standard deviation of the group average.
- All of the companies in my proxy group have been covered by at least two generally recognized utility industry equity analysts.
- All of the companies in my proxy group had senior bond and/or corporate ratings from Standard and Poor's of BBB- to AAA.
- I selected companies that are vertically integrated utilities (*i.e.*, utilities that own and operate regulated generating assets).

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6 SNL Financial.
7 SNL Financial, Company FERC Form 1 reports for years 2009, 2008, and 2007, except as noted.
8 Data excludes Construction Work in Progress ("CWIP").
9 Otter Tail Corporation, SEC Form 10-K, December 31, 2009, at 84.

- I excluded companies whose regulated revenues and operating income in 2007, 2008, and 2009 comprised less than 60.00 percent of the respective totals for the company.
- To focus on companies whose revenues and operating income are derived primarily from electric operations, I excluded companies whose regulated electric revenues and operating income in 2007, 2008, and 2009 represented less than 90.00 percent of the respective totals for the company.
- All of the companies in my proxy group own regulated generation assets and have coal-fired generation that constitutes at least 10.00 percent of their net generation.
- Finally, I eliminated any companies that are currently known to be party to a merger or other transforming transaction.

Q. DID YOU INCLUDE OTC IN YOUR ANALYSIS?

A. No. While OTC is categorized as an electric utility by Value Line, it has significant non-regulated operations that historically have provided a substantial portion of operating income. Therefore, OTC was eliminated in my screening criteria on that basis. Further, in order to avoid the circular logic that otherwise would occur, it is my practice to exclude the subject company from the proxy group.

Q. WHY IS IT IMPORTANT TO CONSIDER ONLY COMPANIES WHOSE RESOURCE PORTFOLIOS INCLUDE SUBSTANTIAL COAL-FIRED GENERATING ASSETS?

A. The Company's operations are heavily dependent on coal-fired generation (nearly 93.18 percent of the Company's kilowatt-hour generation on average from 2007

through 2009).[10] In general, capital-intensive baseload generation assets such as coal-fired plants face risks associated with capital recovery in the event of market structure changes or plant failure, or replacement cost recovery in the event of extended or unplanned outages. In addition, coal-fired assets may require significant increases in capital requirements to comply with changes in environmental policies. This is particularly relevant because of the potential for regulation of carbon emissions by the United States Environmental Protection Agency ("EPA"). On December 7, 2009 the EPA classified carbon dioxide as a danger to public health in an "endangerment finding" under the Clean Air Act, creating the potential for additional litigation and regulatory uncertainty.

As a result of the increased likelihood of carbon emissions regulation, investors see coal generation as taking on even greater risk. The Sierra Club noted that in 2009, no new coal plants began construction in the United States, stating that "[i]n 2009, twenty-six coal-fired power plants…were defeated or abandoned."[11] Similarly, in a recent article in the Wall Street Journal, the Edison Electric Institute ("EEI") noted that there have been 43 coal plants cancelled or deferred since 2008.[12] Given the increasing regulatory and legislative focus on, and the costs associated with, environmental compliance for companies such as OTP that are dependent on coal-fired generation, it is important to exclude companies that do not have a substantial amount of coal-fired generation in their resource portfolio.

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[10] Otter Tail Corporation, SEC Form 10-K, December 31, 2009, at 6; Otter Tail Corporation, SEC Form 10-K, December 31, 2007, at 8.

[11] *No New Coal Plants Started in 2009; Year End State of Coal*, Sierra Club Press Release, December 21, 2009.

[12] Smith, Rebecca, *Turmoil in Power Sector*, Wall Street Journal, January 14, 2010.

Q. HAS THE COMPANY EXPERIENCED THE EFFECTS OF THE ADDED RISKS ASSOCIATED WITH COAL-FIRED GENERATING ASSETS?

A. Yes. The Company withdrew from the Big Stone II project as the result of a combination of factors, including the recent economic downturn and the risks related to coal. As the Company stated:

> On September 11, 2009 OTP announced its withdrawal -- both as a participating utility and as the project's lead developer -- from Big Stone II, due to a number of factors. The broad economic downturn, a high level of uncertainty associated with proposed federal climate legislation and existing federal environmental regulations and challenging credit and equity markets made proceeding with Big Stone II and committing to approximately $400 million in capital expenditures untenable for OTP's customers and the Company's shareholders.[13]

This experience demonstrates the significant challenges resulting from the operation of coal-fired generation assets, particularly in the current economic environment and in the face of many legislative and environmental uncertainties. Further, the Company is facing substantial capital expenditures relating to environmental upgrades of its coal-fired generation assets, as noted in the Direct Testimony of Mr. Thomas Brause.

Q. HOW MANY COMPANIES MET YOUR SCREENING CRITERIA?

A. As shown in Exhibit __(RBH-1), Schedule 3, the criteria discussed above resulted in a proxy group of the following nine companies:

[13] Otter Tail Corporation, SEC Form 10-Q, March 31, 2010 at 16.

Table 3: Screening Results

Company	Ticker
American Electric Power Company, Inc.	AEP
Cleco Corp.	CNL
Edison International	EIX
Great Plains Energy Inc.	GXP
IDACORP, Inc.	IDA
Northeast Utilities	NU
Pinnacle West Capital Corp.	PNW
Portland General Electric Company	POR
Westar Energy, Inc.	WR

Q. IS THIS YOUR FINAL PROXY GROUP?

A. No, it is not. Empire District Electric Company ("EDE") failed to meet one screening criterion, the percentage of revenue derived from regulated electric operations, but only by a small margin.[14] Given EDE's comparability to OTP in other important respects (*i.e.*, EDE met all the remaining screening criteria, which were designed to produce a group of company's comparable to OTP), I have included EDE in my final proxy group. Also, I note that Great Plains Energy reduced its dividend by 50.00 percent in November 2008, which renders its dividend yield unreliable for the purpose of the DCF analysis. For this reason, I have excluded Great Plains Energy from my final proxy group. Finally, Edison International ("EIX") experienced significant unregulated operating losses in 2009; those losses were in excess of 55.00 percent of EIX's regulated utility operating income. According to EIX's SEC Form 10-K for the fiscal year ended December 31, 2009, those significant operating losses were the result of a global tax settlement and payment to the Internal Revenue Service ("IRS"), which caused EIX's unregulated marketing and trading segment to incur over $1.00 billion in payments to settle a claim by the IRS that EIX was under-withholding tax payments.[15] Given the extent of those losses, it is difficult to assess the extent to which the

[14] EDE failed to pass that criterion by approximately 2.25 percent.
[15] *See*, Edison International, SEC Form 10-K for the fiscal year ended December 31, 2009, at 129.

regulated electric utility operations would be expected to contribute to the company's consolidated financial performance in the near and longer terms. Consequently, I have excluded EIX from my final proxy group. That group, then, includes the following eight companies:

Table 4: Final Proxy Group

Company	Ticker
American Electric Power Company, Inc.	AEP
Cleco Corp.	CNL
Empire District Electric Company	EDE
IDACORP, Inc.	IDA
Northeast Utilities	NU
Pinnacle West Capital Corp.	PNW
Portland General Electric Company	POR
Westar Energy, Inc.	WR

Q. DO YOU BELIEVE THAT A TOTAL OF EIGHT COMPANIES CONSTITUTES A SUFFICIENTLY LARGE PROXY GROUP?

A. Yes, I do. The analyses performed are more likely to be representative of the subject utility's cost of equity to the extent that the proxy companies are fundamentally comparable to the subject utility. Because all analysts use some form of screening process to arrive at a proxy group, the group, by definition, is not randomly drawn from a larger population. Consequently, there is no reason to place more reliance on the quantitative results of a larger proxy group simply by virtue of the resulting larger number of observations.

To that point, the New Hampshire Public Utility Commission recognized that comparability is more important than the size of the proxy group:

> [T]he DCF is an economic theory for which a more comparable sample, rather than a larger sample, produces results that are more likely to be representative of the subject utility.[16]

Consistent with that observation, I believe that my proxy group is the most appropriate for determining the cost of equity of the Company and in making my ROE recommendation.

VI. COST OF EQUITY ESTIMATION

Q. PLEASE BRIEFLY DISCUSS THE ROE IN THE CONTEXT OF THE REGULATED RATE OF RETURN.

A. Regulated utilities primarily use common stock and long-term debt to finance their permanent property, plant and equipment. The overall rate of return ("ROR") for a regulated utility is based on its weighted average cost of capital, in which the costs of the individual sources of capital are weighted by their respective book values. While the cost of debt can be directly observed, the cost of equity is market-based and, therefore, must be estimated based on observable market information.

Q. HOW IS THE REQUIRED ROE DETERMINED?

A. The required ROE is estimated by using one or more analytical techniques that rely on market-based data to quantify investor expectations regarding required equity returns, adjusted for certain incremental costs and risks. I then apply my informed judgment, based on the results of those analyses, to determine where within the range of results the cost of equity for OTP falls. The resulting adjusted cost of equity serves as the recommended ROE for ratemaking purposes. As a general proposition, the key consideration in determining the cost of equity is to ensure that the methodologies employed reasonably reflect investors' view of the financial markets in general, and the subject company's common stock in particular.

[16] *Re: Verizon New Hampshire*, 232 P.U.R. 4th 24 (N.H. P.U.C., 2004).

Q. WHAT METHODS DID YOU USE TO DETERMINE THE COMPANY'S ROE?

A. I used the DCF model as the initial approach; I then considered the results of the CAPM and an alternative Risk Premium approach in assessing the reasonableness of the DCF results and developing my ROE recommendation. As discussed in more detail below, the use of a historical market risk premium in the CAPM produces results that are entirely inconsistent with current market conditions. Consequently, I incorporated forward-looking measures of the market risk premium, which more reasonably reflects the persistently volatile capital market environment.

Q. WHY DO YOU BELIEVE IT IS IMPORTANT TO USE MORE THAN ONE ANALYTICAL APPROACH?

A. Because the cost of equity is not directly observable, it must be estimated based on both quantitative and qualitative information. When faced with the task of estimating the cost of equity, analysts are inclined to gather and evaluate as much relevant data as reasonably can be analyzed. As a result, a number of financial models have been developed to estimate the cost of equity. For that reason, I use multiple approaches to estimate the cost of equity in the context of our financial advisory and transaction practices. As a practical matter, however, all of the models available to estimate the cost of equity are subject to limiting assumptions or other methodological constraints. Consequently, many finance texts recommend using multiple approaches when estimating the cost of equity. Copeland, Koller and Murrin,[17] for example, suggest using the CAPM and Arbitrage Pricing Theory model, while Brigham and Gapenski[18] recommend the CAPM, DCF and "bond yield plus risk premium" approaches.

In essence, both analysts and academics understand that ROE models are tools to be used in the ROE estimation process and that strict adherence to any single approach or the specific results of any single approach can lead to flawed conclusions. That

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[17] Tom Copeland, Tim Koller and Jack Murrin, Valuation: Measuring and Managing the Value of Companies, 3rd ed. (New York: McKinsey & Company, Inc., 2000), at 214.

[18] Eugene Brigham, Louis Gapenski, Financial Management: Theory and Practice, 7th Ed. (Orlando: Dryden Press, 1994), at 341.

position is consistent with the *Hope* and *Bluefield* finding that it is the analytical result, as opposed to the methodology, that is controlling in arriving at ROE determinations. As such, it is both prudent and appropriate to use multiple methodologies in order to mitigate the effects of assumptions and inputs associated with relying on any single approach. Such use, however, must be tempered with due caution as to the results generated by each individual approach. Thus, a reasonable ROE estimate appropriately considers alternate methodologies and the reasonableness of their individual and collective results.

A. Constant Growth DCF Model

Q. ARE DCF MODELS WIDELY USED TO DETERMINE THE ROE FOR REGULATED UTILITIES?

A. Yes. DCF models are widely used in regulatory proceedings and have sound theoretical bases, although neither the DCF model nor any other model can be applied without considerable judgment in the selection of data and the interpretation of results. In its simplest form, the DCF model expresses the cost of equity as the sum of the expected dividend yield and long-term growth rate.

Q. PLEASE DESCRIBE THE DCF APPROACH.

A. The DCF approach is based on the theory that a stock's current price represents the present value of all expected future cash flows. In its most general form, the DCF model is expressed as follows:

$$P_0 = \frac{D_1}{(1+k)} + \frac{D_2}{(1+k)^2} + ... + \frac{D_\infty}{(1+k)^\infty} \quad [1]$$

Where P_0 represents the current stock price, D_1 … D_∞ are all expected future dividends, and k is the discount rate, or required ROE. Equation [1] is a standard present value calculation that can be simplified and rearranged into the familiar form:

$$k = \frac{D(1+g)}{P_0} + g \quad [2]$$

Equation [2] is often referred to as the "Constant Growth DCF" model in which the first term is the expected dividend yield and the second term is the expected long-term growth rate.

Q. WHAT ASSUMPTIONS ARE REQUIRED FOR THE CONSTANT GROWTH DCF MODEL?

A. The DCF model requires the following assumptions: (1) a constant growth rate for earnings and dividends; (2) a stable dividend payout ratio; (3) a constant price-to-earnings multiple; and (4) a discount rate greater than the expected growth rate. To the extent that any of these assumptions are violated, considered judgment and/or specific adjustments should be applied to the results.

B. Dividend Yield for the DCF Model

Q. WHAT MARKET DATA DID YOU USE TO CALCULATE THE DIVIDEND YIELD IN YOUR DCF MODEL?

A. The dividend yield is based on the proxy companies' current annualized dividend, and average closing stock prices over the 30, 90, and 180-trading days ended June 30, 2010.

Q. WHY DID YOU USE 30-DAY, 90-DAY, AND 180-DAY AVERAGING PERIODS?

A. I believe it is important to use an average of recent trading days to calculate the term P_0 in the DCF model to ensure that the calculated ROE is not skewed by anomalous events that may affect stock prices on any given trading day. In that regard, the averaging period should be reasonably representative of expected capital market conditions over the long term. At the same time, it is important to reflect the extraordinary conditions that have defined the financial markets over the recent past. In my view, the use of the 30, 90, and 180-day averaging periods reasonably balances those concerns.

Q. DID YOU MAKE ANY ADJUSTMENTS TO THE DIVIDEND YIELD TO ACCOUNT FOR PERIODIC GROWTH IN DIVIDENDS?

A. Yes. Since utility companies tend to increase their quarterly dividends at different times throughout the year, it is reasonable to assume that dividend increases will be evenly distributed over calendar quarters. Given that assumption, it is reasonable to apply one-half of the expected annual dividend growth for purposes of calculating the expected dividend yield component of the DCF model. This adjustment ensures that the expected dividend yield is, on average, representative of the coming twelve-month period, and does not overstate the aggregated dividends to be paid during that time. Accordingly, the DCF estimates provided in Exhibit __(RBH-1), Schedule 4 reflect one-half of the expected growth in the dividend yield component of the model.

C. Growth Rates for the DCF Model

Q. IS IT IMPORTANT TO SELECT APPROPRIATE MEASURES OF LONG-TERM GROWTH IN APPLYING THE DCF MODEL?

A. Yes. In its constant growth form, the DCF model (*i.e.*, Equation [2]) assumes a single growth estimate in perpetuity. Accordingly, in order to reduce the long-term growth rate to a single measure, one must assume a constant payout ratio, and that earnings per share, dividends per share and book value per share all grow at the same constant rate. Over the long run, however, dividend growth can only be sustained by earnings growth. It, therefore, is important to incorporate a variety of sources of long-term earnings growth into the constant growth DCF model.

D. Results for Constant Growth DCF Model

Q. PLEASE SUMMARIZE YOUR INPUTS TO THE CONSTANT GROWTH DCF MODEL.

A. I applied the DCF model to the proxy group of eight integrated electric utility companies using the following inputs for the price and dividend terms:

1. The average daily closing prices for the 30-trading days , 90-trading days, and 180-trading days ended June 30, 2010 for the term P_0; and
2. The annualized dividend per share as of June 30, 2010 for the term D_0.

I then calculated the DCF results using each of the following growth terms:

1. The Zacks consensus long-term earnings growth estimates;
2. The First Call consensus long-term earnings growth estimates; and
3. The Value Line earnings growth estimates.

Q. HOW DID YOU CALCULATE THE HIGH AND LOW DCF RESULTS?

A. I calculated the mean high DCF result using the maximum growth rate (*i.e.*, the maximum of the Value Line, Zack's, and First Call EPS growth rates) in combination with the dividend yield for each of the proxy group companies. Thus, the mean high result reflects the average maximum DCF result for the proxy group. I used a similar approach to calculate the mean low results, using the minimum growth rate for each proxy group company.

Q. WHAT ARE THE RESULTS OF YOUR DCF ANALYSIS?

A. As shown in Exhibit __(RBH-1), Schedule 4, the mean DCF results for my proxy group (before consideration of flotation costs) are 11.20 percent, 11.09 percent, and 11.17 percent for the 30, 90, and 180-trading day periods, respectively. The mean high DCF result for the 30, 90, and 180-day averaging periods are 12.05 percent, 11.94 percent, and 12.01 percent, respectively (before consideration of flotation costs).

E. Flotation Cost Recovery

Q. WHAT ARE FLOTATION COSTS?

A. Flotation costs are the costs associated with the sale of new issues of common stock. These costs include out-of-pocket expenditures for preparation, filing, underwriting, and other costs of issuance of common stock.

Q. WHY IS IT IMPORTANT TO RECOGNIZE FLOTATION COSTS IN THE ALLOWED RETURN ON EQUITY?

A. In order to attract and retain new investors, a regulated utility must have the opportunity to earn a return that is both competitive and compensatory. To the extent that a company is denied the opportunity to recover prudently incurred flotation costs, actual returns will fall short of expected (or required) returns, thereby diminishing the company's ability to attract adequate capital on reasonable terms.

Q. ARE FLOTATION COSTS LIMITED TO EQUITY ISSUANCES PLANNED FOR THE TEST YEAR?

A. No, they are not. Flotation costs are not expenses that flow through the income statement, but instead reduce the proceeds of the issuance, resulting in a net reduction to the common equity portion of the balance sheet. When common stock is issued to the public, the issuing corporation incurs several costs, including: underwriter discounts; audit, legal and listing fees; printing costs; and other direct expenses. Such flotation costs are analogous to debt issuance costs in that they are necessary for the issuance of the securities, and they reduce the net proceeds available to the issuing company. Moreover, because common equity has no specified redemption period, its life is comparable to that of the capital investments being financed by the issuance. Consequently, flotation costs should be recovered through a return adjustment, regardless of whether an issuance occurs during, or is planned for, the test year. Recovery of investments is not limited to the year in which the investment is made, and neither should the recovery of legitimately incurred, direct flotation costs.

Q. ARE FLOTATION COSTS PART OF THE UTILITY'S INVESTED COSTS OR PART OF THE UTILITY'S EXPENSES?

A. Flotation costs are part of the invested costs of the utility, which are properly reflected on the balance sheet of the utility under "paid in capital." As a result, the great majority of a utility's flotation costs are incurred prior to the test year, but remain part of the cost structure that exists during the test year and beyond, and as such, should be

recognized for ratemaking purposes. Therefore, this adjustment is appropriate even if no new issuances are planned in the near future because failure to allow such an adjustment may deny the Company the opportunity to earn its required rate of return in the future.

Q. IS THE NEED TO CONSIDER FLOTATION COSTS ELIMINATED BECAUSE THE COMPANY IS A SUBSIDIARY OF OTC?

A. No. Although the Company is a subsidiary of OTC, it is appropriate to consider flotation costs because the source of capital used by the Company was the result of a public issuance by its parent organization, which led to the issuance costs. To deny recovery of issuance costs associated with the capital that is invested in the utility ultimately will penalize the investors that fund the utility operations and will inhibit the utility's ability to obtain new equity capital at a reasonable cost. This is particularly important in the case of the Company since it is planning significant capital expenditures in the near term, and continued access to capital to fund such required expenditures will be critical.

Q. DO THE DCF AND CAPM MODELS ALREADY INCORPORATE INVESTOR EXPECTATIONS OF A RETURN THAT COMPENSATES FOR FLOTATION COSTS?

A. No. All the models used to estimate the appropriate ROE assume no "friction" or transaction costs, as these costs are not reflected in the market price (in the case of the DCF model) or risk premium (in the case of the CAPM). Therefore, it is appropriate to consider flotation costs when estimating OTP's ROE.

Q. IS THE NEED FOR A FLOTATION COST ADJUSTMENT RECOGNIZED BY THE ACADEMIC AND FINANCIAL COMMUNITIES?

A. Yes, it is. The need to recover equity issuance costs is recognized by the academic and financial communities for the same fundamental reason that investors reasonably expect to recover the costs of debt issuances. This treatment is consistent with the philosophy of a fair rate of return. According to Dr. Shannon Pratt:

> Flotation costs occur when new issues of stock or debt are sold to the public. The firm usually incurs several kinds of flotation or transaction costs, which reduce the actual proceeds received by the firm. Some of these are direct out-of-pocket outlays, such as fees paid to underwriters, legal expenses, and prospectus preparation costs. Because of this reduction in proceeds, the firm's required returns on these proceeds equate to a higher return to compensate for the additional costs. Flotation costs can be accounted for either by amortizing the cost, thus reducing the cash flow to discount, or by incorporating the cost into the cost of capital. Because flotation costs are not typically applied to operating cash flow, one must incorporate them into the cost of capital.[19]

Q. HAS OTC RECENTLY ISSUED COMMON EQUITY?

A. Yes. In September 2008, OTC completed a public offering of approximately 5.175 million shares of common equity at $30.00 per share. Net proceeds from the sale of the common shares after deducting underwriting discounts and commissions and offering expenses of $6.03 million were $149.22 million.[20]

Q. HAVE YOU CALCULATED THE EFFECT OF FLOTATION COSTS ON THE ROE?

A. Yes. I modified the DCF calculation to provide a dividend yield that would reimburse investors for issuance costs. Based on the issuance costs provided in Exhibit __ (RBH-1), Schedule 5, an adjustment of 0.21 percent (*i.e.*, 21 basis points) is reflective of flotation costs for OTP, which is reflected on Exhibit __ (RBH-1), Schedule 4. Table 5, below, presents the DCF results including flotation costs.

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[19] Shannon P. Pratt, Cost of Capital Estimation and Applications, Second Edition, at 220-221.

[20] As discussed in the testimony of Mr. Moug, in March 2010, the Company entered into a distribution agreement under which it may offer and sell up to $75 million of common shares from time to time.

Table 5: DCF Results Including Flotation Costs

	Low Mean DCF Results	Mean DCF Results	High Mean DCF Results
Constant Growth DCF – 30-day Avg. Stock Price	10.53%	11.41%	12.26%
Constant Growth DCF – 90-day Avg. Stock Price	10.42%	11.30%	12.15%
Constant Growth DCF – 180-day Avg. Stock Price	10.50%	11.38%	12.22%

Q. DID YOU UNDERTAKE ANY ADDITIONAL ANALYSES TO SUPPORT YOUR DCF MODEL RESULTS?

A. Yes. As noted earlier, I also used the CAPM and the Risk Premium approach as a means of assessing the reasonableness of my DCF results.

F. CAPM Analysis

Q. PLEASE BRIEFLY DESCRIBE THE CAPITAL ASSET PRICING MODEL.

A. The CAPM is a risk premium approach that estimates the cost of equity for a given security as a function of a risk-free return plus a risk premium (to compensate investors for the non-diversifiable or "systematic" risk of that security). As shown in Equation [3], the CAPM is defined by four components, each of which theoretically must be a forward-looking estimate:

$$K_e = r_f + \beta(r_m - r_f) \qquad [3]$$

where:

k_e = the required market ROE

β = Beta of an individual security

r_f = the risk free rate of return

r_m = the required return on the market as a whole.

In this specification, the term $(r_m - r_f)$ represents the market risk premium. According to the theory underlying the CAPM, since unsystematic risk can be diversified away,

investors should be concerned only with systematic or non-diversifiable risk. Non-diversifiable risk is measured by Beta, which is defined as:

$$\beta = \frac{Covariance\,(r_e, r_m)}{Variance\,(r_m)} \quad [4]$$

The variance of the market return, noted in Equation [4], is a measure of the uncertainty of the general market, and the covariance between the return on a specific security and the market reflects the extent to which the return on that security will respond to a given change in the market return. Thus, Beta represents the risk of the security relative to the market.

Q. HAS THE CAPM BEEN AFFECTED BY RECENT ECONOMIC CONDITIONS?

A. Yes. The recent market has affected the CAPM model in a number of important ways. First, as noted above, the risk free rate, "r_f", in the CAPM formula is represented by the interest rate on long-term U.S. Treasury securities. During the financial dislocation, investors reacted to the extraordinary levels of market volatility discussed earlier by investing in low-risk securities such as Treasury bonds. Consequently, the first term in the model (*i.e.*, the risk-free rate) is lower than it would have been absent the elevated degree of risk aversion that has, at least in part, resulted in historically low Treasury yields.

In addition, as a result of the extraordinary loss in equity values during 2008, the Market Risk Premium, when measured on a historical basis, actually decreased from the prior year, even though other measures of investor sentiments, including market volatility and credit spreads, indicated extremely high levels of risk aversion. That result is, of course, counter-intuitive. While the 2009 market rally resulted in a somewhat higher Market Risk Premium, it still remains below its pre-financial crisis level.

Finally, Beta estimates reported by Value Line and Bloomberg calculate the Beta for each company over historical periods of 60 and 24 months, respectively. During the recent financial market dislocation, the relationship between the returns of the proxy

group companies and the S&P 500 was considerably different than has been experienced in the current market environment. Both the Value Line and Bloomberg Beta estimates are calculated over longer historical time periods that include the effects of the financial market dislocation, resulting in Beta estimates that are much lower than what would has been experienced historically in markets similar to the current market environment. For example, in August 2008, the period prior to the Lehman Brothers bankruptcy filing, the average Beta estimate for my proxy group was 0.85. As shown on Exhibit __(RBH-1), Schedule 6, the average of the Value Line and Bloomberg Beta estimates for my proxy group is currently 0.74, which would suggest a lower CAPM estimate notwithstanding the continued volatility in the capital markets.

Q. WITH THOSE QUALIFICATIONS IN MIND, WHAT ASSUMPTIONS DID YOU USE IN YOUR CAPM MODEL?

A. Since the DCF and CAPM models both assume long-term investment horizons, I used the 30, 90, and 180 day average yield on 30-year Treasury Bonds, and used the projected yield on 30-year Treasury Bonds, as provided by the Blue Chip Financial Forecast,[21] as my estimate of the risk-free rate. For the equity risk premium, I first relied on the historical risk premiums calculated using the long-term average of the total return on large company stocks over the income only portion of long term government bonds as reported by Morningstar for the period from 1926-2009, which results in a risk premium of 6.70 percent.[22] Finally, for the Beta term, I used Betas from Value Line and Bloomberg, both of which adjust their Beta estimates based on an average of the raw, historical Beta and 1.0. This adjustment addresses the tendency of the CAPM to underestimate the cost of capital for companies with "unadjusted" or "raw" Betas significantly less than 1.0. For relatively low raw Beta companies such as regulated utilities, failure to take such adjustments into consideration will result in an

[21] Blue Chip Financial Forecasts, Vol. 29, No. 6 June 1, 2010, at 2.
[22] Morningstar Inc., 2010 Ibbotson Stocks, Bonds, Bills and Inflation, Valuation Yearbook, Appendix A: Risk Premia Over Time, Table A-1 (page 2 of 9) at 7.

understatement of required returns. The extreme market conditions experienced in the recent past have skewed the historical, or *ex-post,* CAPM results, which are shown on Exhibit __(RBH-1), Schedule 7, such that they are not reliable indicators of the Company's forward-looking cost of equity.

Q. HAVE YOU CONSIDERED ANY OTHER SPECIFICATION OF THE CAPM MODEL TO ADJUST FOR THE EFFECT OF THOSE EXTREME MARKET CONDITIONS?

A. Yes, I have considered two additional approaches to estimate the Risk Premium, both of which are forward looking, or *ex-ante,* estimates. The first approach assumes a constant Sharpe Ratio, which is the ratio of the Risk Premium relative to the risk, or standard deviation of a given security or index of securities. As shown in Exhibit __(RBH-1), Schedule 8, the constant Sharpe Ratio is the ratio of historical risk premium of 6.70 percent and the historical market volatility of 20.40 percent, (0.067/0.2040 = 0.3285 or 32.85 percent).[23] The expected Risk Premium is then calculated as the product of the Sharpe Ratio and the expected market volatility. For the calculation of expected market volatility, I relied on the average of the settlement price of futures on the Chicago Board Options Exchange Volatility Index (the "VIX"), which is a widely recognized measure of market volatility, for October through December 2010, and the thirty day average of the three month volatility index (*i.e.*, the VXV) which resulted in expected market volatility of 31.84 percent. The expected Risk Premium using this approach is 10.46 percent (0.3184 x 0.3285 = 0.1046).

The second approach is a relatively simple calculation of the expected return on the S&P 500 Index, less the current 30-year Treasury bond yield. The expected return on the S&P 500 is calculated using the constant growth DCF model discussed earlier in my testimony for the companies in the S&P 500 index for which long-term earnings

[23] The standard deviation is easily calculated from the Morningstar data. *See* Morningstar Inc., Ibbotson Stocks, Bonds, Bills and Inflation, 2010 Valuation Yearbook, Large Company Stocks: Total Returns Table B-1, at 164-165.

projections are available (the companies with such projections represent 96.97 percent of the index market capitalization). As shown on Exhibit __(RBH-1), Schedule 8, the estimated dividend yield for the S&P 500 index is 2.09 percent and the expected growth rate is 10.95 percent, resulting in a estimated required market return of 13.15 percent. The current 30-year Treasury yield is 4.13 percent, resulting in the expected Risk Premium of 9.02 percent.

Q. HOW DID YOU APPLY YOUR PROJECTED MARKET RISK PREMIUM ESTIMATES?

A. For the reasons discussed earlier, I did not rely on historical measures of the Market Risk Premium; rather, I relied upon the two *ex-ante* measures described above as the Market Risk Premium component of the CAPM. In addition, I used the current 30-day average and near-term projection of the 30-year Treasury yield as the Risk Free Rate term. Table 6, below presents those results, including flotation costs. Those estimates produce a range of results that substantially overlaps the ranges produced by the other calculation methodologies.

Table 6: Ex-Ante CAPM Results Including Flotation Costs

	Current 30-day Average 30-Year Treasury (4.13%) Low	**Midpoint**	**Near-Term Projected 30-Year Treasury (4.78%) High**
Sharpe Ratio Derived Market Risk Premium	12.07%	12.40%	12.72%
Market DCF Derived Market Risk Premium	11.01%	11.33%	11.66%

Q. DOES YOUR RECOMMENDATION SUBSTANTIALLY RELY ON ANY OF THE CAPM MODELS YOU PRESENTED IN EXHIBIT __(RBH-1), SCHEDULES 7 AND 8?

A. No, it does not. While I have calculated the CAPM using the approaches and assumptions discussed above, for several reasons I did not give any specific weight to those results. Rather, I used the CAPM results to assess reasonableness of the DCF results discussed earlier.

G. Bond Yield Plus Risk Premium Analysis

Q. PLEASE DESCRIBE THE BOND YIELD PLUS RISK PREMIUM APPROACH YOU EMPLOYED.

A. In general terms, this approach is based on the fundamental principal that equity investors bear the residual risk associated with ownership and therefore require a premium over the return they would have earned as a bondholder. That is, since returns to equity holders are more risky than returns to bondholders, equity investors must be compensated to bear that risk. Risk premium approaches, therefore, estimate the cost of equity as the sum of the equity risk premium and the yield on a particular class of bonds. As noted in my discussion of the CAPM, since the equity risk premium is not directly observable, it typically is estimated using a variety of approaches some of which incorporate an *ex-ante*, or forward-looking estimate of the cost of equity, and others that consider historical or *ex-post* estimates of the cost of equity. An alternative approach, which I have used in my analysis, is to use actual authorized returns for electric utilities as the historical measure of the cost of equity to determine the risk premium.

Q. WHAT DID YOUR BOND YIELD PLUS RISK PREMIUM ANALYSIS REVEAL?

A. As shown on Chart 1, from 1992 through 2010, there was, in fact, a strong negative relationship between risk premia and interest rates. To estimate that relationship, I conducted a regression analysis using the following equation:

$$RP = a + b \times \ln(T) \qquad [6]$$

where:

RP = Risk Premium (difference between allowed ROEs and the yield on 30-year Treasuries)

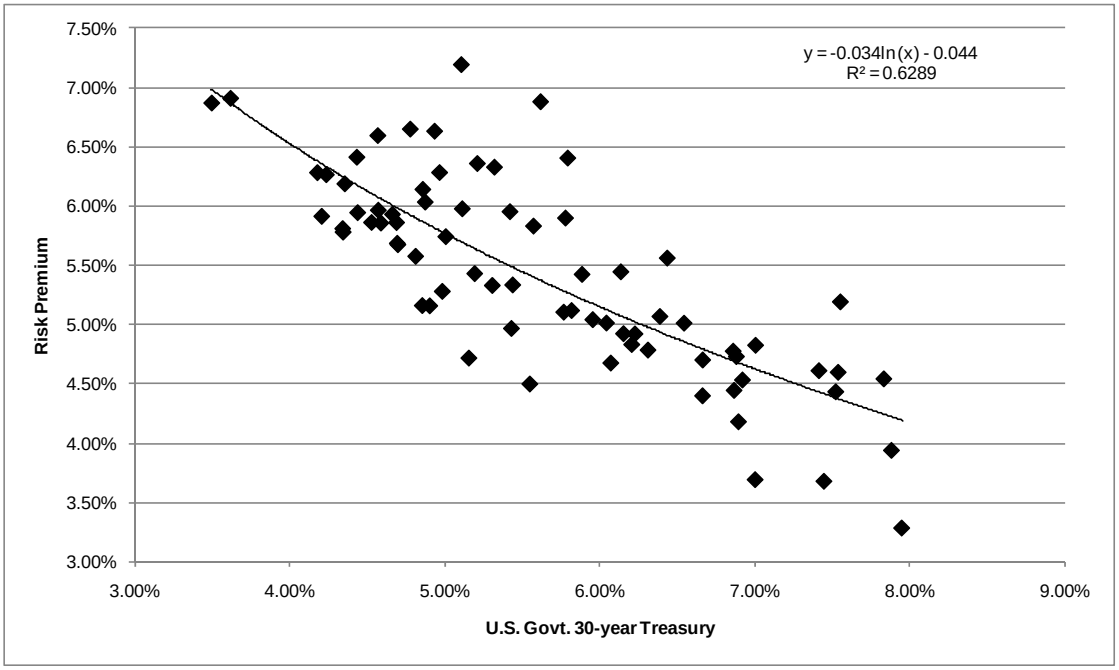
a = Intercept term

b = Slope term

ln(T) = natural log of 30-year Treasury Yield

Data regarding allowed ROEs was derived from 446 rate cases from 1992 through 2010 as reported by Regulatory Research Associates.

Chart 1: Risk Premium vs. Interest Rates



As shown on Exhibit __(RBH-1), Schedule 9, from 1992 through June 30, 2010 the average risk premium was approximately 5.42 percent. Based on the regression coefficients provided in Chart 1, however, the risk premium would be 6.43 percent when using the current 30-day average of the 30-year Treasury bond yield, resulting in an ROE of 10.57 percent. Based on the near-term projection of the 30-year Treasury bond yield (*i.e.* 4.78 percent), the risk premium would be 5.94 percent, resulting in an estimated ROE of 10.72 percent. It is important to note, however, that this estimate does not include the effect of the Company's specific risk factors, as discussed in Section VII of my Direct Testimony.

VII. BUSINESS AND ECONOMIC RISKS

Q. DO THE MEAN DCF AND CAPM RESULTS FOR THE PROXY GROUP

PROVIDE AN APPROPRIATE ESTIMATE OF THE COST OF EQUITY FOR OTP?

A. No, the mean results do not necessarily provide an appropriate estimate of the Company's cost of equity. In my view, there are several additional factors that must be taken into consideration when determining where the Company's cost of equity falls within the range of results. Those factors, which include the Company's planned capital investment program, customer concentration and absence of economic diversity in the Company's service territory, and the Company's substantially smaller size relative to the proxy group, should be considered in terms of their overall effect on the Company's business risk.

A. Capital Expenditures

Q. PLEASE SUMMARIZE THE COMPANY'S CAPITAL EXPENDITURE PLANS.

A. OTP estimates that during the five-year period 2010-2014 it will invest approximately $641 million for electric construction.[24] As explained in the Direct Testimony of Mr. Brause, while the anticipated $395 million of capital expenditures for Big Stone II is no longer part of OTP's plan, other capital expenditures of approximately $245 million for additional generation have been planned due to OTP's need for additional generation resources. Anticipated expenditures for transmission capacity have also increased from $66 million (in 2009-2013)[25] to $110 million (in 2010-2014).[26] As Mr. Moug explains, OTP's net utility plant in service as of December 31, 2009 was approximately $831.22 million,[27] and these anticipated capital expenditures are approximately 77.00 percent of OTP's net utility plant in service, averaging over $128 million per year over that five-year period.

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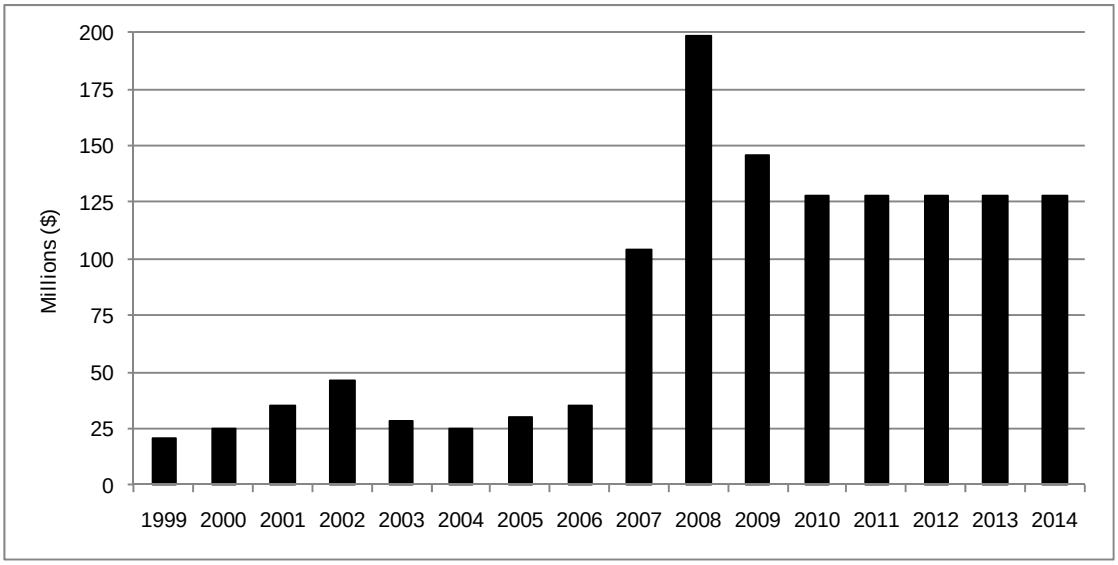
[24] Otter Tail Corporation, SEC Form 10-K, December 31, 2009, at 21 (February 26, 2010).
[25] Otter Tail Corporation, SEC Form 10-K, December 31, 2008, at 28 (February 27, 2009).
[26] Otter Tail Corporation, SEC Form 10-K, December 31, 2009, at 53 (February 26, 2010).
[27] Petition of Otter Tail Power Company for Approval of 2010 Capital Structure and Permission to Issue Securities, Attachment 5.

Chart 2: Otter Tail Power Company Capital Expenditures[28]



Q. WHAT RISKS DO EQUITY ANALYSTS FORESEE IN RELATION TO CAPITAL EXPENDITURES?

A. Equity investors recognize the pressure on cash flows and earnings associated with relatively high levels of capital expenditures. KeyBanc, for example, noted that:

> Much of the intermediate to long-term growth in the sector is tied to large capital growth programs earning regulated returns. During a period of lofty valuations and easy credit, investors viewed these programs positively. Recent market performance has made the equity and debt financing of these large projects less attractive.
>
> ***
>
> Credit and liquidity concerns have driven many companies to revisit capital spending plans and reassess operational efficiencies. The primary response has generally been to delay projects, as opposed to outright cancellation. Initially, reductions in capital programs were a function of lower growth, which eliminated the need for growth-related capital spending on items such as line extensions and new substations. However, as difficult economic conditions persist, the cuts have grown more extensive, with deferrals in non-core maintenance spending, reevaluating the cost-

[28] Source: Otter Tail Corporation, SEC Form 10-K, December 31, 2009, at 21 and 84, Otter Tail Corporation, SEC Form 10-K, December 31, 2007, at 118, Otter Tail Corporation, SEC Form 10-K, December 31, 2004, at 96, Otter Tail Corporation, SEC Form 10-K, December 31, 2001, at 210.

effectiveness of running older inefficient power plants, and pursuing company restructurings or mergers.[29]

Q. TO PUT OTP'S CAPITAL EXPENDITURES PLAN INTO PERSPECTIVE, WHAT MULTIPLE OF DEPRECIATION DOES OTP'S FORECASTED CAPITAL EXPENDITURES CURRENTLY REPRESENT?

A. As noted in Table 7 (below), over the next five years the Company anticipates that capital spending will exceed its annual depreciation expense by approximately 2.82 times.

Table 7: Annual Capital Expenditures as a Multiple of Annual Depreciation Expense ($millions)[30]

	2010	2011	2012	2013	2014	2010-14
Utility Cap Expenditures	$128	$128	$128	$128	$128	$641
Utility Depreciation	$41	$43	$45	$48	$50	$227
Capital Expenditures / Depreciation	**3.16**	**2.98**	**2.82**	**2.68**	**2.56**	**2.82**

Q. WILL OTP NEED CONTINUED ACCESS TO THE CAPITAL MARKETS IN ORDER TO FINANCE ITS CAPITAL EXPENDITURE PLAN?

A. Yes. As discussed by Mr. Moug, given the size and long-term nature of the anticipated capital expenditures, OTP will require continued access to the capital markets, at reasonable terms, in order to finance its capital expenditure plan.

Q. WHAT ARE YOUR CONCLUSIONS REGARDING THE EFFECT OF THE COMPANY'S CAPITAL INVESTMENT PLAN ON ITS RISK PROFILE AND COST OF CAPITAL?

A. It is clear that OTP is projecting a substantial capital expenditure program over the next five years that will require continued access to the capital markets. It also is clear that equity investors and credit rating agencies recognize the additional risks

[29] KeyBanc Capital Markets Inc. Equity Research, *Electric Utilities Quarterly 1Q10*, June 2010, at 7.
[30] Otter Tail Corporation SEC Form 10-K, December 31, 2009, at 21, 60, 84, and 113; reflects only OTP capital expenditures and depreciation expense associated with regulated operations.

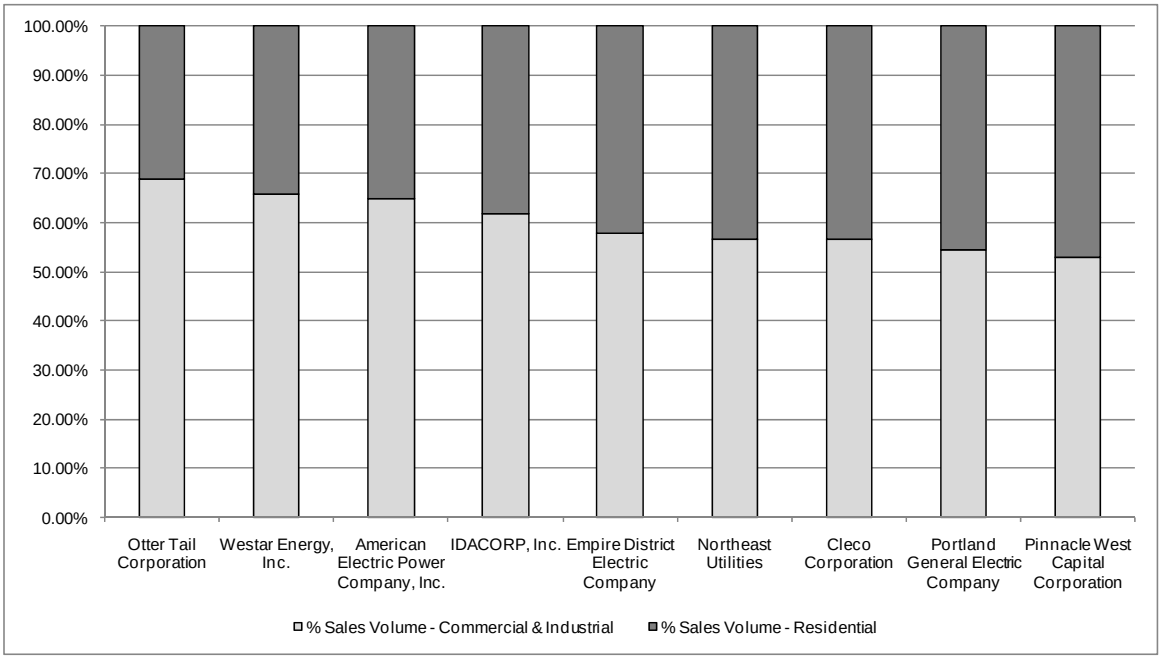
associated with substantial capital expenditures. These additional risk factors suggest that an ROE toward the upper end of the range of results would be appropriate.

B. Customer Concentration and Absence of Economic Diversity

Q. HOW DOES OTP'S CUSTOMER CONCENTRATION AFFECT ITS BUSINESS RISK?

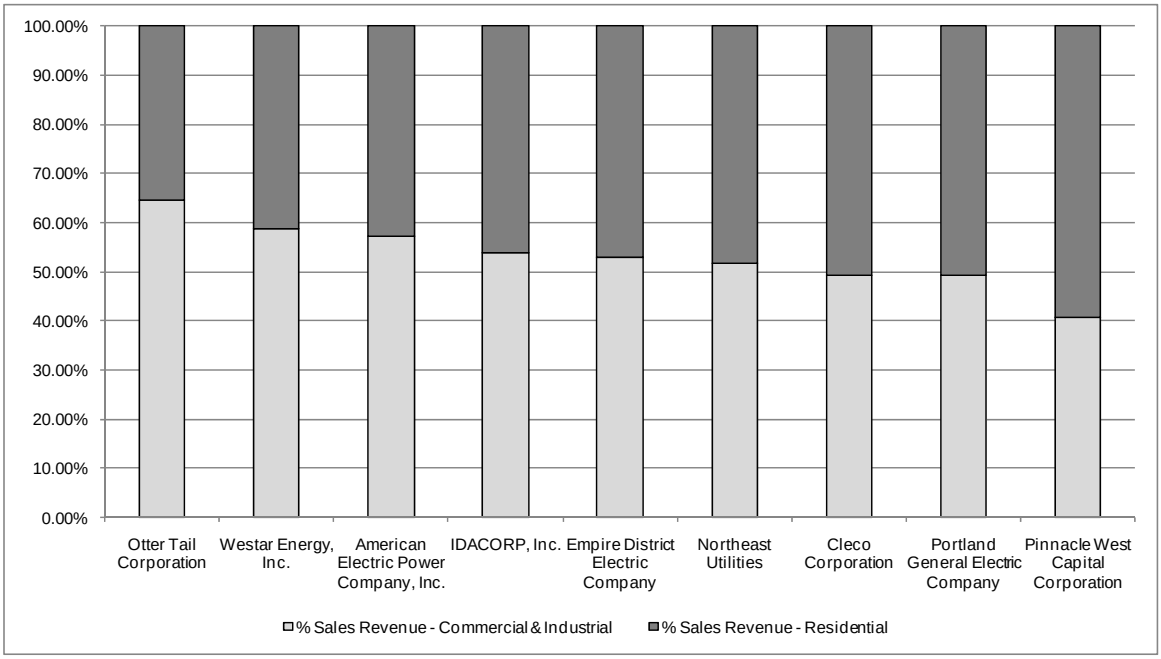
A. OTP's customer base is largely comprised of commercial and industrial customers. Approximately 64.67 percent of its total revenues and 68.94 percent of its total sales volume are attributable to sales to commercial and industrial customers. Relative to the proxy group, OTP has the highest commercial customer concentration by percent of revenues and volume (in kilowatt-hours).

Chart 3: Proxy Group Customer Concentration by Sales Volume[31]



[31] SNL Financial, 2009 FERC Form 1 data.

Chart 4: Proxy Group Customer Concentration by Revenue[32]



OTP's dependence on sales to commercial users subjects its operations to greater cash flow volatility, and risk of demand destruction and bypass. Although OTP currently believes its rates are sufficiently competitive to retain its commercial customers, OTP remains highly exposed to such risks.

Q. DOES THE ABSENCE OF ECONOMIC DIVERSITY IN OTP'S SERVICE TERRITORY AFFECT THE COMPANY'S RISK PROFILE?

A. Yes. The territory served by OTP is mainly agricultural.[33] It generally is understood that diversity is an important factor in the economic stability of a given market area. That is, a diversified economy is less susceptible to the economic cycles of, or shocks associated with, a single industry. Consequently, a relatively undiversified market, such as that served by OTP, represents meaningful financial risks to the host utility.

[32] SNL Financial, 2009 FERC Form 1 data.
[33] Otter Tail Corporation, SEC Form 10-K, December 31, 2009, at 4.

C. Small Size

Q. PLEASE EXPLAIN THE RISK ASSOCIATED WITH SMALL SIZE.

A. Both the financial and academic communities have long accepted the proposition that the cost of equity for small firms is subject to a "size effect."[34] While empirical evidence of the size effect often is based on studies of industries beyond regulated utilities, utility analysts also have noted the risks associated with small market capitalizations. Specifically, Ibbotson Associates noted:

> For small utilities, investors face additional obstacles, such as smaller customer base, limited financial resources, and a lack of diversification across customers, energy sources, and geography. These obstacles imply a higher investor return.[35]

Small size, therefore, leads to two categories of increased risk for investors: (1) liquidity risk (*i.e.*, the risk of not being able to sell one's shares in a timely manner due to the relatively thin market for the securities); and (2) fundamental business risks.

Q. HOW DOES OTP COMPARE IN SIZE TO THE PROXY COMPANIES?

A. OTP is substantially smaller than the average or median of the proxy group companies both in terms of numbers of customers and market capitalization. Exhibit __(RBH-1), Schedule 10 estimates the implied market capitalization for OTP (*i.e.*, the implied market capitalization if the Company were a stand-alone, publicly traded entity). That is, since OTP is a subsidiary of OTC, an estimated stand-alone market capitalization for OTP must be calculated. To do so, I applied the median market to book ratio for the eight member proxy group to OTP's equity of $328 million.[36] The implied market capitalization based on that calculation is $387 million, which is 19.39 percent of the median level of the proxy group and approximately 9.79 percent of the mean level of the proxy group, and lower than any of the proxy group companies.

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[34] *See* Mario Levis, *The record on small companies: A review of the evidence*, Journal of Asset Management 2, March 2002, at 368-397, for a review of literature relating to the size effect.

[35] Michael Annin, *Equity and the Small-Stock Effect*, Public Utilities Fortnightly, October 15, 1995.

[36] See Exhibit_(KGM-1), Schedule 2 to Mr. Moug's Direct Testimony.

Q. HOW DOES THE SMALLER SIZE OF OTP AFFECT ITS BUSINESS RISKS RELATIVE TO THE PROXY GROUP OF COMPANIES?

A. In general, smaller companies are less able to withstand adverse events that affect their revenues and expenses. The impact of weather variability, the loss of large customers to bypass opportunities, or the destruction of demand as a result of general macroeconomic conditions or fuel price volatility will have a proportionately greater impact on the earnings and cash flow volatility of smaller utilities. Similarly, capital expenditures for non-revenue producing investments, such as system maintenance and replacements and environmental upgrades, will put proportionately greater pressure on customer costs, potentially leading to customer attrition or demand reduction. Taken together, these risks affect the return required by investors for smaller companies.

Q. HOW DID YOU ESTIMATE THE SIZE PREMIUM FOR THE COMPANY?

A. In its *Risk Premia over Time Report: 2010*, Morningstar presents its calculation of the size premium for deciles of market capitalizations relative to the S&P 500 Index. An additional estimate of the size premium associated with OTP, therefore, is the difference in the Ibbotson size risk premia for the proxy group median market capitalization relative to the implied market capitalization for OTP.

As shown on Exhibit __(RBH-1), Schedule 10, according to recent market data, the median market capitalization of the proxy group was approximately $2.00 billion,[37] which is over five times the size of OTP. In this case, it is more prudent to compare the Company to the smallest proxy group company in order to gauge the minimum adjustment required to compensate for the competitive disadvantage due to size. The smallest proxy group company, in terms of market capitalization, was Empire District Electric Company with total market capitalization of approximately $750 million.[38] This corresponds to the 7th decile of Morningstar market capitalization data. Based on the Morningstar analysis, that decile corresponds to a size premium of 1.73 percent (or

[37] Bloomberg, as of June 30, 2010.
[38] *Ibid*.

173 basis points). The implied market capitalization for OTP is approximately $387 million, which falls within the 9th decile and corresponds to a size premium of 2.85 percent (or 285 basis points). The difference between those size premia is 112 basis points (2.85 percent – 1.73 percent).

Since Empire District Electric Company's market capitalization is at the lower end of its Morningstar decile, even if I were to consider the next decile (*i.e.*, the 8th decile), which includes market capitalizations up to $685 million (with a corresponding size premium of 2.49 percent), the implied relative size premium for OTP would be 0.36 percent (or 36 basis points). In either case, the size premium is meaningful and suggests that my ROE recommendation is reasonable.

Q HAVE YOU CONSIDERED THE SUBSTANTIALLY SMALLER SIZE OF OTP IN YOUR RECOMMENDED ROE?

A. Yes. While I have quantified the small size effect, rather than proposing a specific premium, I have considered the small size of OTP in my assessment of business risks in order to determine where within a reasonable range of returns, OTP's required ROE appropriately falls.

VIII. CAPITAL STRUCTURE

Q. WHAT IS THE COMPANY'S PROJECTED CAPITAL STRUCTURE?

A. As described in the direct testimony of Mr. Moug, OTP's proposed capital structure consists of 53.22 percent common equity and 46.78 percent long-term debt.

Q. PLEASE DISCUSS THE IMPORTANCE OF MAINTAINING A STRONG BALANCE SHEET AND CAPITAL STRUCTURE IN THE CURRENT MARKET ENVIRONMENT.

A. As discussed in Section IV, the current financial market is characterized by a continuing contraction of credit availability, and a relatively high level of interest costs. Under such conditions, financing options are more limited and the need to

maintain a strong balance sheet as a means of preserving access to capital is more acute than it would be in a more normal market environment. Mr. Moug's direct testimony shows the effects of the recent capital market on financing capital expenditures, and the importance of maintaining access to capital markets, especially in the context of carrying out a substantial capital expenditure plan.

Q. PLEASE DISCUSS YOUR ANALYSIS OF THE CAPITAL STRUCTURES OF THE PROXY GROUP COMPANIES.

A. My analysis of the actual proxy group capital structures is provided in Exhibit__(RBH-1), Schedule 11. As shown in that Schedule, I calculated the mean of the proportions of common equity and long-term debt over the most recent eight quarters[39] for each of the proxy group companies. The mean of the proxy group actual capital structures is 50.50 percent common equity and 49.50 percent long-term debt,[40] and the proxy group companies' equity ratios range from a low of 46.93 percent to 60.35 percent. Based on that review, it is apparent that the Company's proposed capital structure is generally consistent with the capital structures of the proxy group companies.

Q. WHAT IS YOUR CONCLUSION REGARDING AN APPROPRIATE CAPITAL STRUCTURE FOR OTTER TAIL POWER COMPANY?

A. Considering the actual capital structures of the proxy group and the Company's extensive capital investment program, I believe that the Company's proposed equity ratio of 53.22 percent is appropriate for OTP.

[39] In this analysis, I calculated the average capital structure using the quarterly capital structures reported for the proxy group companies for the period from June 2008 through March 2010.

[40] Excludes preferred equity.

Q. WILL THE CAPITAL STRUCTURE AND ROE AUTHORIZED IN THIS PROCEEDING AFFECT OTP'S ABILITY TO COMPLETE ITS CAPITAL EXPENDITURE PLAN?

A. Yes, I believe so. The level of earnings authorized by the Commission directly affects the Company's ability to fund capital investment with internally generated funds; and both lenders and equity investors expect a significant portion of on-going capital investments to be financed with internally generated funds. The need to generate funds internally also is important in light of the constrained, volatile, and expensive capital market conditions.

It also is important to realize that investors weigh a given utility's authorized ROE in the context of the nature of its expected capital investments. Because a utility's investment horizon is very long, investors require the assurance of a sufficiently high return to satisfy the long-run financing requirements of the assets it puts into service. Those assurances, which often are measured by the relationship between internally generated cash flows and debt (or interest expense), depend quite heavily on the capital structure. As a consequence, both the ROE and capital structure are very important to both debt and equity investors. Given the capital market conditions and the Company's significant financing requirements, the authorized ROE and capital structure are extremely important considerations in this proceeding.

IX. SUMMARY AND CONCLUSIONS

Q. WHAT IS YOUR CONCLUSION REGARDING THE ROE AND CAPITAL STRUCTURE FOR OTTER TAIL POWER COMPANY?

A. I believe that an ROE in the range of 11.00 percent to 11.50 percent represents the range of equity investors' required rate of return for investment in integrated electric utilities in today's capital markets. The Company's requested ROE of 11.25 percent is at the midpoint of the range, even though an ROE at the upper end of the range would be supported considering the Company's risk profile relative to the proxy group with respect to (i) the Company's comparatively high level of capital expenditures; (ii) its

customer concentration and lack of economic diversity in its service area and (iii) the Company's comparatively small size. As such, I find the Company's requested ROE to be reasonable, if not conservative. Table 8 (below) summarizes my analytical results.

Table 8: Summary of Analytical Results

	Mean Low	Mean	Mean High
Constant Growth DCF (including Flotation Costs)			
Constant Growth DCF – 30-Day Average	10.53%	11.41%	12.27%
Constant Growth DCF – 90-Day Average	10.42%	11.30%	12.15%
Constant Growth DCF – 180-Day Average	10.50%	11.38%	12.22%
Supporting Methodologies			
	Low	**Mean**	**High**
CAPM 10.46% Risk Premium (including Flotation Costs)	12.07%	12.40%	12.72%
CAPM 9.02% Risk Premium (including Flotation Costs)	11.01%	11.33%	11.66%
Risk Premium (Authorized ROE and Treasury Yields)	10.57%	10.64%	10.72%

Finally, I conclude that the Company's proposed capital structure, which consists of 53.22 percent common equity and 46.78 percent long-term debt, is reasonable.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

Robert B. Hevert, CFA
President

Mr. Hevert is an economic and financial consultant with broad experience in the energy industry. He has an extensive background in the areas of corporate strategic planning, energy market assessment, corporate finance, mergers, and acquisitions, asset-based transactions, asset and business unit valuation, market entry strategies, strategic alliances, project development, feasibility and due diligence analyses. Mr. Hevert has significant management experience with both operating and professional services companies.

REPRESENTATIVE PROJECT EXPERIENCE

Financial and Economic Advisory Services

Retained by numerous leading energy companies and financial institutions throughout North America to provide services relating to the strategic evaluation, acquisition, sale or development of a variety of regulated and non-regulated enterprises. Specific services have included: developing strategic and financial analyses and managing multi-faceted due diligence reviews of proposed corporate M&A counter-parties; developing, screening and recommending potential M&A transactions and facilitating discussions between senior utility executives regarding transaction strategy and structure; performing valuation analyses and financial due diligence reviews of electric generation projects, retail marketing companies, and wholesale trading entities in support of significant M&A transactions.

Specific divestiture-related services have included advising both buy and sell-side clients in transactions for physical and contractual electric generation resources. Sell-side services have included: development and implementation of key aspects of asset divestiture programs such as marketing, offering memorandum development, development of transaction terms and conditions, bid process management, bid evaluation, negations, and regulatory approval process. Buy-side services have included comprehensive asset screening, selection, valuation and due diligence reviews. Both buy and sell-side services have included the use of sophisticated asset valuation techniques, and the development and delivery of fairness opinions.

Specific corporate finance experience while a Vice President with Bay State Gas included: negotiation, placement and closing of both private and public long-term debt, preferred and common equity; structured and project financing; corporate cash management; financial analysis, planning and forecasting; and various aspects of investor relations.

Representative non-confidential clients have included:

- Conectiv generation asset divestiture
- Eastern Utilities Associates (prior to acquisition by National Grid, PLC) generation asset divestiture
- Niagara Mohawk – sale of Niagara Mohawk Energy
- Potomac Electric Company generation asset divestiture

Representative confidential engagements have included:

- Buy-side valuation and assessment of merchant generation assets in Midwestern U.S.
- Buy-side due diligence and valuation of wholesale energy marketing companies in Eastern and Midwestern U.S.
- Buy-side due diligence of natural gas distribution assets in Northeastern U.S.
- Financial feasibility study of natural gas pipeline in upper Midwestern U.S.

- Financial valuation of natural gas pipeline in Southwestern U.S.

Regulatory Analysis and Ratemaking

On behalf of electric, natural gas and combination utilities throughout North America, provided services relating to energy industry restructuring including merchant function exit, residual energy supply obligations, and stranded cost assessment and recovery. Also performed rate of return and cost of service analyses for municipally owned gas and electric utilities. Specific services provided include: performing strategic review and development of merchant function exit strategies including analysis of provider of last resort obligations in both electric and gas markets; and developing value optimizing strategies for physical generation assets.

Representative engagements have included:

- Performing rate of return analyses for use in cost of service analyses on behalf of municipally owned gas and electric utilities in the Southeastern and Midwestern U.S.
- Developing merchant function exit strategies for Northeastern U.S. natural gas distribution companies
- Developing regulatory and ratemaking strategy for mergers including several Northeastern natural gas distribution companies

Litigation Support and Expert Testimony

Provided expert testimony and support of litigation in various regulatory proceedings on a variety of energy and economic issues including the proposed transfer of power purchase agreements, procurement of residual service electric supply, the legal separation of generation assets, and specific financing transactions. Services provided also included collaborating with counsel, business and technical staff to develop litigation strategies, preparing and reviewing discovery and briefing materials, preparing presentation materials and participating in technical sessions with regulators and intervenors.

Energy Market Assessment

Retained by numerous leading energy companies and financial institutions nationwide to manage or provide assessments of regional energy markets throughout the U.S. and Canada. Such assessments have included development of electric and natural gas price forecasts, analysis of generation project entry and exit scenarios, assessment of natural gas and electric transmission infrastructure, market structure and regulatory situation analysis, and assessment of competitive position. Market assessment engagements typically have been used as integral elements of business unit or asset-specific strategic plans or valuation analyses.

Representative engagements have included:

- Managing assessments of the NYPOOL, NEPOOL and PJM markets for major North American energy companies considering entering or expanding their presence in those markets
- Assessment of ECAR, MAPP, MAIN and SPP markets for a large U.S. integrated utility considering acquisition of additional electric generation assets
- Assessment of natural gas pipeline and storage capacity in the SERC and FRCC markets for a major international energy company

Resource Procurement, Contracting and Analysis

Assisted various clients in evaluating alternatives for acquiring fuel and power supplies, including the development and negotiation of energy contracts and tolling agreements. Assignments also have included developing generation resource optimization strategies. Provided advice and analyses of transition service power supply contracts in the context of both physical and contractual generation resource divestiture transactions.

Business Strategy and Operations

Retained by numerous leading North American energy companies and financial institutions nationwide to provide services relating to the development of strategic plans and planning processes for both regulated and non-regulated enterprises. Specific services provided include: developing and implementing electric generation strategies and business process redesign initiatives; developing market entry strategies for retail and wholesale businesses including assessment of asset-based marketing and trading strategies; and facilitating executive level strategic planning retreats. As Vice President, Energy Ventures, of Bay State was responsible for the company's strategic planning and business development processes, played an integral role in developing the company's non-regulated marketing affiliate, EnergyUSA, and managed the company's non-regulated investments, partnerships and strategic alliances.

Representative engagements have included:

- Developing and facilitating executive level strategic planning retreats for Northeastern natural gas distribution companies
- Developing organization and business process redesign plans for municipally owned gas/electric/water utility in the Southeastern U.S.
- Reviewing and revising corporate merchant generation business plans for Canadian and U.S. integrated utilities
- Advising client personnel in development of business unit level strategic plans for various natural gas distribution companies

PROFESSIONAL HISTORY

Concentric Energy Advisors, Inc. (2002 – Present)
President

Navigant Consulting, Inc. (1997 – 2001)
Managing Director (2000 – 2001)
Director (1998 – 2000)
Vice President, REED Consulting Group (1997 – 1998)

REED Consulting Group (1997)
Vice President

Bay State Gas Company (1987 – 1997)
Vice President, Energy Ventures and Assistant Treasurer

Boston College (1986 – 1987)
Financial Analyst

General Telephone Company of the South (1984 – 1986)
Revenue Requirements Analyst

EDUCATION

M.B.A., University of Massachusetts at Amherst, 1984
B.S., University of Delaware, 1982

DESIGNATIONS AND PROFESSIONAL AFFILIATIONS

Chartered Financial Analyst, 1991
Association for Investment Management and Research
Boston Security Analyst Society

PUBLICATIONS/PRESENTATIONS

Has made numerous presentations throughout the United States and Canada on several topics, including:

- Generation Asset Valuation and the Use of Real Options
- Retail and Wholesale Market Entry Strategies
- The Use Strategic Alliances in Restructured Energy Markets
- Gas Supply and Pipeline Infrastructure in the Northeast Energy Markets
- Nuclear Asset Valuation and the Divestiture Process

AVAILABLE UPON REQUEST

Extensive client and project listings, and specific references.

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Arkansas Public Service Commission				
CenterPoint Energy Resources Corp. D/B/A CenterPoint Energy Arkansas Gas	01/07	CenterPoint Energy Resources Corp. D/B/A CenterPoint Energy Arkansas Gas	Docket No. 06-161-U	Return on Equity
Colorado Public Utilities Commission				
Atmos Energy Corporation	07/09	Atmos Energy Colorado-Kansas Division	Docket No. 09AL-507G	Return on Equity (gas)
Xcel Energy	12/06	Public Service Company of Colorado	Docket No. 06S-656G	Return on Equity (gas)
Xcel Energy	04/06	Public Service Company of Colorado	Docket No. 06S-234EG	Return on Equity (electric)
Xcel Energy	08/05	Public Service Company of Colorado	Docket No. 05S-369ST	Return on Equity (steam)
Xcel Energy	05/05	Public Service Company of Colorado	Docket No. 05S-264G	Return on Equity (gas)
Connecticut Department of Public Utility Control				
Southern Connecticut Gas Company	09/08	Southern Connecticut Gas Company	Docket No. 08-08-17	Return on Equity
Southern Connecticut Gas Company	12/07	Southern Connecticut Gas Company	Docket No. 05-03-17PH02	Return on Equity
Connecticut Natural Gas Corporation	12/07	Connecticut Natural Gas Corporation	Docket No. 06-03-04PH02	Return on Equity
Federal Energy Regulatory Commission				
Portland Natural Gas Transmission System	05/10	Portland Natural Gas Transmission System	Docket No. RP10-729-000	Return on Equity
Florida Gas Transmission Company, LLC	10/09	Florida Gas Transmission Company, LLC	Docket No. RP10-21-000	Return on Equity
Maritimes and Northeast Pipeline, LLC	07/09	Maritimes and Northeast Pipeline, LLC	Docket No. RP09-809-000	Return on Equity
Spectra Energy	02/08	Saltville Gas Storage	Docket No. RP08-257-000	Return on Equity
Panhandle Energy Pipelines	08/07	Panhandle Energy Pipelines	Docket No. PL07-2-000	Response to draft policy statement regarding inclusion of MLPs in proxy groups for determination of gas pipeline ROEs
Southwest Gas Storage Company	08/07	Southwest Gas Storage Company	Docket No. RP07-541-000	Return on Equity
Southwest Gas Storage Company	06/07	Southwest Gas Storage Company	Docket No. RP07-34-000	Return on Equity

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Sea Robin Pipeline LLC	06/07	Sea Robin Pipeline LLC	Docket No. RP07-513-000	Return on Equity
Transwestern Pipeline Company	09/06	Transwestern Pipeline Company	Docket No. RP06-614-000	Return on Equity
GPU International and Aquila	11/00	GPU International	Docket No. EC01-24-000	Market Power Study
Georgia Public Service Commission				
Atlanta Gas Light Company	05/10	Atlanta Gas Light Company	Docket No. 31647-U	Return on Equity
Maine Public Utilities Commission				
Northern Utilities, Inc.	07/95	Northern Utilities	Maine PUC	Gas Distribution System Expansion
Massachusetts Department of Public Utilities				
National Grid	08/09	Massachusetts Electric Company d/b/a National Grid	DPU 09-39	Revenue Decoupling and Return on Equity
National Grid	08/09	Massachusetts Electric Company and Nantucket Electric Company d/b/a National Grid	DPU 09-38	Return on Equity – Solar Generation
Bay State Gas Company	04/09	Bay State Gas Company	DTE 09-30	Return on Equity
NSTAR Electric	09/04	NSTAR Electric	DTE 04-85	Divestiture of Power Purchase Agreement
NSTAR Electric	08/04	NSTAR Electric	DTE 04-78	Divestiture of Power Purchase Agreement
NSTAR Electric	07/04	NSTAR Electric	DTE 04-68	Divestiture of Power Purchase Agreement
NSTAR Electric	07/04	NSTAR Electric	DTE 04-61	Divestiture of Power Purchase Agreement
NSTAR Electric	06/04	NSTAR Electric	DTE 04-60	Divestiture of Power Purchase Agreement
Unitil Corporation	01/04	Fitchburg Gas and Electric	DTE 03-52	Integrated Resource Plan; Gas Demand Forecast
Bay State Gas Company	01/93	Bay State Gas Company	DPU 93-14	Long Term Debt Financing
Bay State Gas Company	01/91	Bay State Gas Company	DPU 91-25	Long Term Debt Financing
Minnesota Public Utilities Commission				

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Otter Tail Power Corporation	04/10	Otter Tail Power Company	Docket No. E-017/GR-10-239	Return on Equity
Minnesota Power a division of ALLETE, Inc.	11/09	Minnesota Power	Docket No. E015/GR-09-1151	Return on Equity
CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas	11/08	CenterPoint Energy Minnesota Gas	Docket No. G-008/GR-08-1075	Return on Equity
Otter Tail Power Corporation	10/07	Otter Tail Power Company	Docket No. E017/GR-07-1178	Return on Equity
Xcel Energy	11/05	NSP-Minnesota	Docket No. E002/GR-05-1428	Return on Equity (electric)
Xcel Energy	09/04	NSP Minnesota	Docket No. G002/GR-04-1511	Cost of Capital (gas)
Mississippi Public Service Commission				
CenterPoint Energy Resources, Corp. d/b/a CenterPoint Energy Entex and CenterPoint Energy Mississippi Gas	07/09	CenterPoint Energy Mississippi Gas	Docket No. 09-UN-334	Return on Equity
Missouri Public Service Commission				
Union Electric Company d/b/a AmerenUE	06/10	Union Electric Company d/b/a AmerenUE	Case No. GR-2010-0363	Return on Equity (gas)
New Hampshire Public Utilities Commission				
EnergyNorth Natural Gas d/b/a National Grid NH	02/10	EnergyNorth Natural Gas d/b/a National Grid NH	Docket No. DG 10-017	Return on Equity
Unitil Energy Systems, Inc. ("Unitil"), EnergyNorth Natural Gas, Inc. d/b/a National Grid NH, Granite State Electric Company d/b/a National Grid, and Northern Utilities, Inc. – New Hampshire Division	08/08	Unitil Energy Systems, Inc. ("Unitil"), EnergyNorth Natural Gas, Inc. d/b/a National Grid NH, Granite State Electric Company d/b/a National Grid, and Northern Utilities, Inc. – New Hampshire Division	Docket No. DG 07-072	Carrying Charge Rate on Cash Working Capital
New Jersey Board of Public Utilities				
Pepco Holdings, Inc.	09/06	Atlantic City Electric Company	Docket No. EMO6090638	Divestiture and Valuation of Electric Generating Assets
Pepco Holdings, Inc.	12/05	Atlantic City Electric Company	BPU Docket No. EM05121058	Market Value of Electric Generation Assets; Auction

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Conectiv	06/03	Atlantic City Electric Company	BPU Docket No. EO03020091	Market Value of Electric Generation Assets; Auction Process
New Mexico Public Regulation Commission				
Public Service Company of New Mexico	06/10	Public Service Company of New Mexico	Case No. 10-00086-UT	Return on Equity (electric)
Public Service Company of New Mexico	09/08	Public Service Company of New Mexico	Case No. 08-00273-UT	Return on Equity (electric)
Xcel Energy	07/07	Southwestern Public Service Company	Case No. 07-00319-UT	Return on Equity (electric)
New York State Public Service Commission				
Orange and Rockland Utilities, Inc.	07/10	Orange and Rockland Utilities, Inc.	Case No. 10-E-0362	Return on Equity (electric)
Consolidated Edison Company of New York, Inc.	11/09	Consolidated Edison Company of New York, Inc.	Case No. 09-G-0795	Return on Equity (gas)
Consolidated Edison Company of New York, Inc.	11/09	Consolidated Edison Company of New York, Inc.	Case No. 09-S-0794	Return on Equity (steam)
Niagara Mohawk Power Corporation	07/01	Niagara Mohawk Power Corporation	Case No. 01-E-1046	Power Purchase and Sale Agreement; Standard Offer Service Agreement
North Dakota Public Service Commission				
Otter Tail Power Company	11/08	Otter Tail Power Company	Docket No. 08-862	Return on Equity (electric)
Oklahoma Corporation Commission				
CenterPoint Energy Resources Corp., D/B/A CenterPoint Energy Oklahoma Gas	03/09	CenterPoint Energy Oklahoma Gas	Docket No. PUD200900055	Return on Equity
Rhode Island Public Utilities Commission				
National Grid RI – Gas	08/08	National Grid RI – Gas	Docket No. 3943	Revenue Decoupling and Return on Equity
South Carolina Public Service Commission				
South Carolina Electric & Gas	03/10	South Carolina Electric & Gas	Docket No. 2009-489-E	Return on Equity
South Dakota Public Utilities Commission				

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Northern States Power Company	06/09	South Dakota Division of Northern States Power	Docket No. EL09-009	Return on Equity (electric)
Otter Tail Power Company	10/08	Otter Tail Power Company	Docket No. EL08-030	Return on Equity (electric)
Texas Public Utility Commission				
CenterPoint Energy Houston Electric LLC	07/10	CenterPoint Energy Houston Electric LLC	Docket No. 38339	Return on Equity
Xcel Energy	05/10	Southwestern Public Service Company	Docket No. 38147	Return on Equity (electric)
Texas-New Mexico Power Company	08/08	Texas-New Mexico Power Company	Docket No. 36025	Return on Equity (electric)
Xcel Energy	05/06	Southwestern Public Service Company	SOAH Docket No. 473-06-2536 Docket No. 32766	Return on Equity (electric)
Texas Railroad Commission				
CenterPoint Energy Resources Corp. D/B/A CenterPoint Energy Entex and CenterPoint Energy Texas Gas	07/09	CenterPoint Energy Resources Corp. D/B/A CenterPoint Energy Entex and CenterPoint Energy Texas Gas	GUD 9902	Return on Equity
CenterPoint Energy Resources Corp. D/B/A CenterPoint Energy Texas Gas	03/08	CenterPoint Energy Resources Corp. D/B/A CenterPoint Energy Texas Gas	GUD 9791	Return on Equity
Utah Public Service Commission				
Questar Gas Company	12/07	Questar Gas Company	Docket No. 07-057-13	Return on Equity
Vermont Public Service Board				
Green Mountain Power	04/06	Green Mountain Power	Docket Nos. 7175 and 7176	Return on Equity (electric)
Vermont Gas Systems, Inc.	12/05	Vermont Gas Systems	Docket Nos. 7109 and 7160	Return on Equity (gas)
Virginia State Corporation Commission				
Columbia Gas Of Virginia, Inc.	06/06	Columbia Gas Of Virginia, Inc.	Case No. PUE-2005-00098	Merger Synergies
Dominion Resources	10/01	Virginia Electric and Power Company	Case No. PUE000584	Corporate Structure and Electric Generation Strategy

PROXY GROUP SELECTION

		Pays regular quarterly dividends	Beta within 1 std. dev. of mean	Covered by at least 2 analysts	Credit rating ≥ BBB- & ≤ AAA	Own Regulated Generation Assets	Reg. rev. / total rev. ≥ 60%	Reg. oper. inc. / total oper. inc. ≥ 60%	Reg. elec. rev. / total reg. rev. ≥ 90%	Reg. elec. op. inc. / total reg. op. inc. ≥ 90%	Coal-fired generation ≥ 10%	Not party to merger	Included in proxy group	Included in final proxy group
Allegheny Energy, Inc.	AYE	✓		✓	✓	✓	✓		✓	✓	✓			
ALLETE, Inc.	ALE	✓	✓	✓	✓	✓	✓	✓			✓	✓		
Alliant Energy Corp.	LNT	✓	✓	✓	✓	✓	✓	✓			✓	✓		
Ameren Corp.	AEE	✓	✓	✓	✓	✓	✓				✓	✓		
American Electric Power Co., Inc.	AEP	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Yes	**Yes**
Avista Corp.	AVA	✓	✓	✓	✓	✓	✓	✓			✓	✓		
Black Hills Corp.	BKH	✓	✓	✓	✓	✓	✓	✓			✓	✓		
CenterPoint Energy, Inc.	CNP	✓		✓	✓		✓	✓				✓		
Central Vermont Public Service Corp.	CV	✓	✓	✓	✓	✓	✓		✓	✓		✓		
CH Energy Group, Inc.	CHG	✓	✓		✓	✓	✓	✓				✓		
Cleco Corp.	CNL	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Yes	**Yes**
CMS Energy Corp.	CMS	✓	✓	✓	✓	✓	✓				✓	✓		
Consolidated Edison, Inc.	ED	✓		✓	✓	✓	✓	✓				✓		
Constellation Energy Group, Inc.	CEG	✓	✓	✓	✓						✓			
Dominion Resources, Inc.	D	✓	✓	✓	✓	✓		✓			✓	✓		
DPL Inc.	DPL	✓		✓	✓		✓	✓	✓	✓	✓	✓		
DTE Energy Co.	DTE	✓	✓	✓	✓	✓	✓	✓			✓	✓		
Duke Energy Corp.	DUK	✓	✓	✓	✓	✓	✓	✓			✓	✓		
Edison International	EIX	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Yes	
El Paso Electric Co.	EE		✓	✓	✓	✓	✓	✓	✓	✓		✓		
Empire District Electric Co.	EDE	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓		**Yes**
Entergy Corp.	ETR	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓		
Exelon Corp.	EXC	✓		✓	✓		✓		✓	✓		✓		
FirstEnergy Corp.	FE	✓	✓	✓	✓		✓		✓	✓	✓			
Great Plains Energy Inc.	GXP	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Yes	
Hawaiian Electric Industries, Inc.	HE	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓		
IDACORP, Inc.	IDA	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Yes	**Yes**
Integrys Energy Group, Inc.	TEG	✓		✓	✓	✓		✓		✓	✓	✓		
ITC Holdings Corp.	ITC	✓		✓	✓		✓	✓	✓	✓		✓		
MGE Energy, Inc.	MGEE	✓			✓	✓	✓	✓			✓	✓		
NextEra Energy Inc.	NEE	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓		
Northeast Utilities	NU	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Yes	**Yes**
NSTAR	NST	✓	✓	✓	✓		✓	✓		✓		✓		
NV Energy, Inc.	NVE	✓		✓		✓	✓	✓	✓	✓	✓	✓		
OGE Energy Corp.	OGE	✓	✓	✓	✓	✓	✓	✓			✓	✓		
Otter Tail Corp.	OTTR	✓		✓	✓	✓		✓	✓	✓	✓	✓		
Pepco Holdings, Inc.	POM	✓		✓	✓			✓	✓	✓	✓	✓		
PG&E Corp.	PCG	✓		✓	✓	✓	✓	✓				✓		
Pinnacle West Capital Corp.	PNW	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Yes	**Yes**
PNM Resources, Inc.	PNM	✓		✓		✓	✓		✓	✓	✓	✓		
Portland General Electric Co.	POR	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Yes	**Yes**
PPL Corp.	PPL	✓	✓	✓	✓				✓	✓	✓			
Progress Energy, Inc.	PGN	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓		
Public Service Enterprise Group Inc.	PEG	✓	✓	✓	✓		✓				✓	✓		
SCANA Corp.	SCG	✓	✓	✓	✓	✓	✓	✓			✓	✓		
Sempra Energy	SRE	✓	✓	✓	✓	✓	✓					✓		
Southern Co.	SO	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓		
TECO Energy, Inc.	TE	✓	✓	✓	✓	✓	✓	✓			✓	✓		
UIL Holdings Corp.	UIL	✓	✓	✓	✓		✓	✓	✓	✓				
UniSource Energy Corp.	UNS	✓	✓			✓	✓	✓			✓	✓		
Vectren Corp.	VVC	✓	✓	✓	✓	✓	✓	✓			✓	✓		
Westar Energy, Inc.	WR	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Yes	**Yes**
Wisconsin Energy Corp.	WEC	✓		✓	✓	✓	✓	✓			✓	✓		
Xcel Energy Inc.	XEL	✓		✓	✓	✓	✓	✓			✓	✓		
													9	8

30-DAY CONSTANT GROWTH DCF

Company		[1] Annualized Dividend	[2] Stock Price	[3] Dividend Yield	[4] Expected Dividend Yield	[5] Zacks EPS Growth	[6] Value Line EPS Growth	[7] First Call EPS Growth	[8] Average Growth Rate	[9] Low DCF ROE	[10] Mean DCF ROE	[11] High DCF ROE
PROXY GROUP ELECTRIC UTILITIES												
American Electric Power Company, Inc.	AEP	$1.68	$32.34	5.20%	5.29%	4.00%	3.00%	4.00%	3.67%	8.27%	8.96%	9.30%
Cleco Corporation	CNL	$1.00	$26.31	3.80%	3.94%	7.00%	8.00%	7.00%	7.33%	10.93%	11.27%	11.95%
Empire District Electric Company	EDE	$1.28	$18.43	6.95%	7.17%	NA	7.00%	6.00%	6.50%	13.15%	13.67%	14.19%
IDACORP, Inc.	IDA	$1.20	$33.17	3.62%	3.71%	4.70%	5.50%	4.50%	4.90%	8.20%	8.61%	9.22%
Northeast Utilities	NU	$1.03	$25.95	3.95%	4.08%	7.90%	4.00%	7.41%	6.44%	8.03%	10.51%	12.01%
Pinnacle West Capital Corporation	PNW	$2.10	$35.86	5.86%	6.05%	7.50%	6.00%	6.25%	6.58%	12.03%	12.63%	13.58%
Portland General Electric Company	POR	$1.04	$18.77	5.54%	5.66%	5.30%	3.00%	4.25%	4.18%	8.63%	9.84%	10.99%
Westar Energy, Inc.	WR	$1.24	$22.00	5.64%	5.87%	8.00%	7.50%	9.28%	8.26%	13.35%	14.13%	15.18%
		PROXY GROUP MEAN		5.07%	5.22%	6.34%	5.50%	6.09%	5.98%	10.32%	11.20%	12.05%
									Flotation Adjustment	0.21%	0.21%	0.21%
									Adjusted Mean RO	10.53%	11.41%	12.26%

Notes
[1] Source: Bloomberg
[2] Source: Bloomberg. Based on indicated number of days historical average
[3] Equals Col. [1]/Col. [2]
[4] Equals (Col. [1] x (1+(0.5 x Col. [8]))) / Col. [2]
[5] Source: Zacks
[6] Source: Value Line
[7] Source: Yahoo! Finance
[8] Equals average of Cols. [5], [6], [7]
[9] Equals (Col. [3] x (1 + (0.5 x Minimum (Col. [5], [6], [7])))) + Minimum (Col. [5], [6], [7])
[10] Equals Col. [4] + Col. [8]
[11] Equals (Col. [3] x (1 + (0.5 x Maximum (Col. [5], [6], [7])))) + Maximum (Col. [5], [6], [7]

90-DAY CONSTANT GROWTH DCF

Company		[1] Annualized Dividend	[2] Stock Price	[3] Dividend Yield	[4] Expected Dividend Yield	[5] Zacks EPS Growth	[6] Value Line EPS Growth	[7] First Call	[8] Average Growth Rate	[9] Low DCF ROE	[10] Mean DCF ROE	[11] High DCF ROE
PROXY GROUP ELECTRIC UTILITIES												
American Electric Power Company, Inc.	AEP	$1.68	$33.37	5.03%	5.13%	4.00%	3.00%	4.00%	3.67%	8.11%	8.79%	9.14%
Cleco Corporation	CNL	$1.00	$26.57	3.76%	3.90%	7.00%	8.00%	7.00%	7.33%	10.90%	11.24%	11.91%
Empire District Electric Company	EDE	$1.28	$18.56	6.90%	7.12%	NA	7.00%	6.00%	6.50%	13.10%	13.62%	14.14%
IDACORP, Inc.	IDA	$1.20	$34.35	3.49%	3.58%	4.70%	5.50%	4.50%	4.90%	8.07%	8.48%	9.09%
Northeast Utilities	NU	$1.03	$26.70	3.84%	3.96%	7.90%	4.00%	7.41%	6.44%	7.92%	10.40%	11.89%
Pinnacle West Capital Corporation	PNW	$2.10	$36.95	5.68%	5.87%	7.50%	6.00%	6.25%	6.58%	11.85%	12.45%	13.40%
Portland General Electric Company	POR	$1.04	$19.19	5.42%	5.53%	5.30%	3.00%	4.25%	4.18%	8.50%	9.72%	10.86%
Westar Energy, Inc.	WR	$1.24	$22.41	5.53%	5.76%	8.00%	7.50%	9.28%	8.26%	13.24%	14.02%	15.07%
		PROXY GROUP MEAN		4.96%	5.11%	6.34%	5.50%	6.09%	5.98%	10.21%	11.09%	11.94%
									Flotation Adjustment	0.21%	0.21%	0.21%
									Adjusted Mean RO	10.42%	11.30%	12.15%

Notes
[1] Source: Bloomberg
[2] Source: Bloomberg. Based on indicated number of days historical average
[3] Equals Col. [1]/Col. [2]
[4] Equals (Col. [1] x (1+(0.5 x Col. [8])) / Col. [2]
[5] Source: Zacks
[6] Source: Value Line
[7] Source: Yahoo! Finance
[8] Equals average of Cols. [5], [6], [7]
[9] Equals (Col. [3] x (1 + (0.5 x Minimum (Col. [5], [6], [7]))) + Minimum (Col. [5], [6], [7])
[10] Equals Col. [4] + Col. [8]
[11] Equals (Col. [3] x (1 + (0.5 x Maximum (Col. [5], [6], [7]))) + Maximum (Col. [5], [6], [7]

180-DAY CONSTANT GROWTH DCF

Company		[1] Annualized Dividend	[2] Stock Price	[3] Dividend Yield	[4] Expected Dividend Yield	[5] Zacks EPS Growth	[6] Value Line EPS Growth	[7] First Call	[8] Average Growth Rate	[9] Low DCF ROE	[10] Mean DCF ROE	[11] High DCF ROE
PROXY GROUP ELECTRIC UTILITIES												
American Electric Power Company, Inc.	AEP	$1.68	$33.39	5.03%	5.12%	4.00%	3.00%	4.00%	3.67%	8.11%	8.79%	9.13%
Cleco Corporation	CNL	$1.00	$26.26	3.81%	3.95%	7.00%	8.00%	7.00%	7.33%	10.94%	11.28%	11.96%
Empire District Electric Company	EDE	$1.28	$18.54	6.91%	7.13%	NA	7.00%	6.00%	6.50%	13.11%	13.63%	14.15%
IDACORP, Inc.	IDA	$1.20	$32.53	3.69%	3.78%	4.70%	5.50%	4.50%	4.90%	8.27%	8.68%	9.29%
Northeast Utilities	NU	$1.03	$25.77	3.98%	4.11%	7.90%	4.00%	7.41%	6.44%	8.06%	10.54%	12.03%
Pinnacle West Capital Corporation	PNW	$2.10	$36.21	5.80%	5.99%	7.50%	6.00%	6.25%	6.58%	11.97%	12.57%	13.52%
Portland General Electric Company	POR	$1.04	$19.52	5.33%	5.44%	5.30%	3.00%	4.25%	4.18%	8.41%	9.62%	10.77%
Westar Energy, Inc.	WR	$1.24	$21.71	5.71%	5.95%	8.00%	7.50%	9.28%	8.26%	13.43%	14.21%	15.26%
		PROXY GROUP MEAN		5.03%	5.18%	6.34%	5.50%	6.09%	5.98%	10.29%	11.17%	12.01%
									Flotation Adjustment	0.21%	0.21%	0.21%
									Adjusted Mean ROE	10.50%	11.38%	12.22%

Notes
[1] Source: Bloomberg
[2] Source: Bloomberg. Based on indicated number of days historical average
[3] Equals Col. [1]/Col. [2]
[4] Equals (Col. [1] x (1+(0.5 x Col. [8])) / Col. [2]
[5] Source: Zacks
[6] Source: Value Line
[7] Source: Yahoo! Finance
[8] Equals average of Cols. [5], [6], [7]
[9] Equals (Col. [3] x (1 + (0.5 x Minimum (Col. [5], [6], [7])))) + Minimum (Col. [5], [6], [7])
[10] Equals Col. [4] + Col. [8]
[11] Equals (Col. [3] x (1 + (0.5 x Maximum (Col. [5], [6], [7])))) + Maximum (Col. [5], [6], [7]

FLOTATION COST ADJUSTMENT

Flotation Costs from Inception to Date

Issuing Entity	Date	Shares Issued	Offering Price	Gross Equity Issue before Costs	Underwriting Discount	Offering Expense	Total Flotation Costs	Net Proceeds	Flotation Cost Percentage	Weighted Average
Otter Tail Corp.	12/7/2004	3,335,000	$ 25.45	$84,875,750	$ 3,168,250	$ 300,000	$3,468,250	$81,407,500	4.086%	1.44%
Otter Tail Corp.	9/15/2008	5,175,000	$ 30.00	$155,250,000	$ 5,627,813	$ 400,000	$6,027,813	$149,222,188	3.883%	2.51%
Weighted Average Flotation Costs										3.95%

The flotation cost adjustment is derived by dividing the dividend yield by 1-F (where F = flotation costs expressed in percentage terms), or by .9605, and adding that result to the constant growth rate to determine the cost of equity. Using the formulas shown previously in my testimony, the Constant Growth DCF calculation is modified as follows to accomodate an adjustment for flotation costs:

$$k = \frac{D \times (1 + 0.5g)}{P \times (1 - F)} + g$$

Flotation Cost Adjustment

Company		[1] Annualized Dividend	[2] Stock Price	[3] Dividend Yield	[4] Expected Dividend Yield	[5] Expected Dividend Yield Adjusted for Flotation Costs	[6] Zacks EPS Growth	[7] Value Line EPS Growth	[8] First Call EPS Growth	[9] Average Growth Estimate	[10] DCF k(e)	[11] Flotation Adjusted DCF k(e)
PROXY GROUP ELECTRIC UTILITIES												
American Electric Power Company, Inc.	AEP	$1.68	$32.34	5.20%	5.29%	5.51%	4.00%	3.00%	4.00%	3.67%	8.96%	9.18%
Cleco Corporation	CNL	$1.00	$26.31	3.80%	3.94%	4.10%	7.00%	8.00%	7.00%	7.33%	11.27%	11.44%
Empire District Electric Company	EDE	$1.28	$18.43	6.95%	7.17%	7.47%	NA	7.00%	6.00%	6.50%	13.67%	13.97%
IDACORP, Inc.	IDA	$1.20	$33.17	3.62%	3.71%	3.86%	4.70%	5.50%	4.50%	4.90%	8.61%	8.76%
Northeast Utilities	NU	$1.03	$25.95	3.95%	4.08%	4.24%	7.90%	4.00%	7.41%	6.44%	10.51%	10.68%
Pinnacle West Capital Corporation	PNW	$2.10	$35.86	5.86%	6.05%	6.30%	7.50%	6.00%	6.25%	6.58%	12.63%	12.88%
Portland General Electric Company	POR	$1.04	$18.77	5.54%	5.66%	5.89%	5.30%	3.00%	4.25%	4.18%	9.84%	10.07%
Westar Energy, Inc.	WR	$1.24	$22.00	5.64%	5.87%	6.11%	8.00%	7.50%	9.28%	8.26%	14.13%	14.37%
MEAN				5.07%	5.22%	5.44%	6.34%	5.50%	6.09%	5.98%	11.20%	11.42%

MEAN		11.42%
UNADJUSTED CONSTANT GROWTH DCF MEAN		11.20%
DIFFERENCE (FLOTATION COST ADJUSTMENT)	[12]	0.21%

[1] Source: Bloomberg
[2] Source: Bloomberg, 30-day average stock price as of June 30, 2010
[3] Equals Col. [1] / Col. [2]
[4] Equals (Col. [1] x (1+(0.5 x Col. [9]))) / Col. [2]
[5] Equals Col. [4] / (1- Flotation Cost Percentage)
[6] Source: Zacks
[7] Source: Value Line
[8] Source: Yahoo! Finance
[9] Equals average of Cols. [6], [7], [8]
[10] Equals Column [4] + Column [9]
[11] Equals Column [5] + Column [9]
[12] Equals Mean Adjusted DCF, Col. [11] − Mean Unadjusted DCF, Col. [10]

ADJUSTED BETAS

		[1]	[2]	[3]	[4]
		August 2008		June 2010	
Company	Ticker	Value Line	Bloomberg	Value Line	Bloomberg
American Electric Power Company, Inc.	AEP	0.85	0.89	0.70	0.82
Cleco Corporation	CNL	1.00	0.94	0.65	0.71
Empire District Electric Company	EDE	0.85	0.78	0.70	0.75
IDACORP, Inc.	IDA	0.90	0.82	0.70	0.74
Northeast Utilities	NU	0.75	0.80	0.70	0.75
Pinnacle West Capital Corporation	PNW	0.80	0.74	0.75	0.84
Portland General Electric Company	POR	0.80	0.90	0.70	0.74
Westar Energy, Inc.	WR	0.90	0.92	0.75	0.81
	MEAN	0.86	0.85	0.71	0.77
		0.85		0.74	

[1] Source: Value Line; dated 6/27/2008, 8/8/2008, and 8/29/2008
[2] Source: Bloomberg; 9/15/2006 - 9/12/2008
[3] Source: Value Line; dated 5/7/2010, 5/28/2010, and 6/25/2010
[4] Source: Bloomberg; 7/4/2008 - 6/25/2010

CAPITAL ASSET PRICING MODEL - 30-Day Average 30-Year Treasury Bond Yield

		[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
		Adjusted Betas							
Company		Value Line	Bloomberg	Mean Beta	30-Yr Treasury	Market Risk Premium	Low CAPM	CAPM k(e)	High CAPM
American Electric Power Company, Inc.	AEP	0.70	0.82	0.76	4.13%	6.70%	8.82%	9.23%	9.63%
Cleco Corporation	CNL	0.65	0.71	0.68	4.13%	6.70%	8.49%	8.70%	8.92%
Empire District Electric Company	EDE	0.70	0.75	0.73	4.13%	6.70%	8.82%	9.00%	9.18%
IDACORP, Inc.	IDA	0.70	0.74	0.72	4.13%	6.70%	8.82%	8.97%	9.12%
Northeast Utilities	NU	0.70	0.75	0.72	4.13%	6.70%	8.82%	8.98%	9.14%
Pinnacle West Capital Corporation	PNW	0.75	0.84	0.79	4.13%	6.70%	9.16%	9.45%	9.75%
Portland General Electric Company	POR	0.70	0.74	0.72	4.13%	6.70%	8.82%	8.96%	9.10%
Westar Energy, Inc.	WR	0.75	0.81	0.78	4.13%	6.70%	9.16%	9.35%	9.53%
MEAN		0.71	0.77	0.74			8.87%	9.08%	9.30%

Notes
[1] Source: Value Line
[2] Source: Bloomberg
[3] Equals average of Cols. [1] & [2]
[4] Source: Average of 30-Year Treasury Yield as of 6/30/2010
[5] Source: Morningstar, Inc.
[6] Equals Col. [4] + (Min. (Cols. [1], [2]) x Col. [5])
[7] Equals Col. [4] + (Col. [3] x Col. [5])
[8] Equals Col. [4] + (Max. (Cols. [1], [2]) x Col. [5])

CAPITAL ASSET PRICING MODEL - 90-Day Average 30-Year Treasury Bond Yield

		[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
		Adjusted Betas							
Company		Value Line	Bloomberg	Mean Beta	30-Yr Treasury	Market Risk Premium	Low CAPM	CAPM k(e)	High CAPM
American Electric Power Company, Inc.	AEP	0.70	0.82	0.76	4.45%	6.70%	9.14%	9.54%	9.95%
Cleco Corporation	CNL	0.65	0.71	0.68	4.45%	6.70%	8.80%	9.02%	9.23%
Empire District Electric Company	EDE	0.70	0.75	0.73	4.45%	6.70%	9.14%	9.32%	9.50%
IDACORP, Inc.	IDA	0.70	0.74	0.72	4.45%	6.70%	9.14%	9.29%	9.44%
Northeast Utilities	NU	0.70	0.75	0.72	4.45%	6.70%	9.14%	9.29%	9.45%
Pinnacle West Capital Corporation	PNW	0.75	0.84	0.79	4.45%	6.70%	9.47%	9.76%	10.06%
Portland General Electric Company	POR	0.70	0.74	0.72	4.45%	6.70%	9.14%	9.28%	9.42%
Westar Energy, Inc.	WR	0.75	0.81	0.78	4.45%	6.70%	9.47%	9.66%	9.85%
MEAN		0.71	0.77	0.74			9.18%	9.39%	9.61%

Notes
[1] Source: Value Line
[2] Source: Bloomberg
[3] Equals average of Cols. [1] & [2]
[4] Source: Average of 30-Year Treasury Yield as of 6/30/2010
[5] Source: Morningstar, Inc.
[6] Equals Col. [4] + (Min. (Cols. [1], [2]) x Col. [5])
[7] Equals Col. [4] + (Col. [3] x Col. [5])
[8] Equals Col. [4] + (Max. (Cols. [1], [2]) x Col. [5])

CAPITAL ASSET PRICING MODEL - 180-Day Average 30-Year Treasury Bond Yield

Company		[1] Adjusted Betas Value Line	[2] Adjusted Betas Bloomberg	[3] Mean Beta	[4] 30-Yr Treasury	[5] Market Risk Premium	[6] Low CAPM	[7] CAPM k(e)	[8] High CAPM
American Electric Power Company, Inc.	AEP	0.70	0.82	0.76	4.46%	6.70%	9.15%	9.55%	9.95%
Cleco Corporation	CNL	0.65	0.71	0.68	4.46%	6.70%	8.81%	9.02%	9.24%
Empire District Electric Company	EDE	0.70	0.75	0.73	4.46%	6.70%	9.15%	9.32%	9.50%
IDACORP, Inc.	IDA	0.70	0.74	0.72	4.46%	6.70%	9.15%	9.30%	9.44%
Northeast Utilities	NU	0.70	0.75	0.72	4.46%	6.70%	9.15%	9.30%	9.46%
Pinnacle West Capital Corporation	PNW	0.75	0.84	0.79	4.46%	6.70%	9.48%	9.77%	10.07%
Portland General Electric Company	POR	0.70	0.74	0.72	4.46%	6.70%	9.15%	9.28%	9.42%
Westar Energy, Inc.	WR	0.75	0.81	0.78	4.46%	6.70%	9.48%	9.67%	9.85%
MEAN		0.71	0.77	0.74			9.19%	9.40%	9.62%

Notes
[1] Source: Value Line
[2] Source: Bloomberg
[3] Equals average of Cols. [1] & [2]
[4] Source: Average of 30-Year Treasury Yield as of 6/30/2010
[5] Source: Morningstar, Inc.
[6] Equals Col. [4] + (Min. (Cols. [1], [2]) x Col. [5])
[7] Equals Col. [4] + (Col. [3] x Col. [5])
[8] Equals Col. [4] + (Max. (Cols. [1], [2]) x Col. [5])

CAPITAL ASSET PRICING MODEL - Projected Treasury Bond Yield

		[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
		Adjusted Betas							
Company		Value Line	Bloomberg	Mean Beta	30-Yr Treasury	Market Risk Premium	Low CAPM	CAPM k(e)	High CAPM
American Electric Power Company, Inc.	AEP	0.70	0.82	0.76	4.78%	6.70%	9.47%	9.88%	10.28%
Cleco Corporation	CNL	0.65	0.71	0.68	4.78%	6.70%	9.14%	9.35%	9.57%
Empire District Electric Company	EDE	0.70	0.75	0.73	4.78%	6.70%	9.47%	9.65%	9.83%
IDACORP, Inc.	IDA	0.70	0.74	0.72	4.78%	6.70%	9.47%	9.62%	9.77%
Northeast Utilities	NU	0.70	0.75	0.72	4.78%	6.70%	9.47%	9.63%	9.79%
Pinnacle West Capital Corporation	PNW	0.75	0.84	0.79	4.78%	6.70%	9.81%	10.10%	10.39%
Portland General Electric Company	POR	0.70	0.74	0.72	4.78%	6.70%	9.47%	9.61%	9.75%
Westar Energy, Inc.	WR	0.75	0.81	0.78	4.78%	6.70%	9.81%	10.00%	10.18%
MEAN		0.71	0.77	0.74			9.52%	9.73%	9.95%

Notes
[1] Source: Value Line
[2] Source: Bloomberg
[3] Equals average of Cols. [1] & [2]
[4] Source: Blue Chip Financial Forecast, June 1, 2010
[5] Source: Morningstar, Inc.
[6] Equals Col. [4] + (Min. (Cols. [1], [2]) x Col. [5])
[7] Equals Col. [4] + (Col. [3] x Col. [5])
[8] Equals Col. [4] + (Max. (Cols. [1], [2]) x Col. [5])

CAPM UTILIZING ALTERNATIVE MARKET RISK PREMIUM CALCULATIONS

	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]
			Market Risk Premium		Return on Equity		Return on Equity Incl. Flotation Costs	
		Average Beta	Sharpe Ratio Derived	Market DCF Derived	Sharpe Ratio Derived	Market DCF Derived	Sharpe Ratio Derived	Market DCF Derived
[1] Current 30-Year Treasury (30-day average)	4.13%	0.74	10.46%	9.02%	11.86%	10.79%	12.07%	11.01%
[2] Near-Term Projected 30-Year Treasury	4.78%	0.74	10.46%	9.02%	12.51%	11.44%	12.72%	11.66%
				AVERAGE	12.18%	11.12%	12.40%	11.33%

Notes:
[1] Source: Bloomberg
[2] Source: Blue Chip Financial Forecasts, Vol. 29, No. 6, June 1, 2010, at 2
[3] *see Notes [1] and [2]*
[4] Source: Exhbit__(RBH-1), Schedule 7
[5] Source: Exhbit__(RBH-1), Schedule 8 at 1
[6] Source: Exhbit__(RBH-1), Schedule 8 at 2
[7] Equals Col. [3] + (Col. [4] x Col. [5])
[8] Equals Col. [3] + (Col. [4] x Col. [6])
[9] Equals Col. [7] + Flotation Cost Adjustment (see Exhbit__(RBH-1), Schedule 5
[10] Equals Col. [8] + Flotation Cost Adjustment (see Exhbit__(RBH-1), Schedule 5

MARKET RISK PREMIUM UTILIZING EXPECTED MARKET SHARPE RATIO

[1]	[2]	[3]	[4]	[5]
RP_h	Vol_h	VOL_e	Historical Market Sharpe Ratio	RP_e
6.70%	20.40%	31.84%	32.85%	10.46%

	[6]	[7]	[8]	[9]
Date	VXV	10/10 VIX Futures	11/10 VIX Futures	12/10 VIX Futures
6/30/2010	35.23	35.30	34.80	33.90
6/29/2010	34.38	34.75	34.25	33.50
6/28/2010	30.96	32.50	32.00	31.35
6/25/2010	30.70	31.95	31.50	30.75
6/24/2010	31.36	31.90	31.45	30.70
6/23/2010	29.26	30.85	30.70	30.15
6/22/2010	29.09	30.40	30.30	29.55
6/21/2010	27.54	29.65	29.60	28.90
6/18/2010	27.96	29.55	29.50	28.85
6/17/2010	28.21	29.95	29.90	29.25
6/16/2010	28.78	30.20	30.20	29.45
6/15/2010	28.45	30.45	30.35	29.50
6/14/2010	30.68	31.60	31.45	30.40
6/11/2010	30.95	31.80	31.80	30.90
6/10/2010	31.47	32.10	32.10	31.10
6/9/2010	33.80	33.05	32.70	31.75
6/8/2010	33.65	32.75	32.55	31.60
6/7/2010	35.30	33.05	32.75	31.95
6/4/2010	34.37	32.55	32.40	31.70
6/3/2010	30.24	31.20	31.15	30.75
6/2/2010	30.59	31.50	31.45	31.25
6/1/2010	34.02	32.15	32.00	31.90
5/28/2010	32.00	31.60	31.50	31.45
5/27/2010	30.64	31.40	31.35	31.30
5/26/2010	33.95	33.00	32.80	32.45
5/25/2010	34.90	33.30	33.00	32.75
5/24/2010	36.91	33.70	33.35	32.95
5/21/2010	37.40	33.80	33.40	32.90
5/20/2010	40.83	33.80	33.30	32.90
5/19/2010	34.18	31.45	31.15	30.90
Average		31.84		

Notes:
[1] Source: Morningstar, Inc.
RP_h = historical arithmetic average Risk Premium
[2] Source: Morningstar, Inc.
Vol_h = historical market volatility
[3] Vol_e = expected market volatility (*see below*)
[4] Equals Col. [1] / Col. [2]
[5] Equals Col. [3] x Col. [4]
[6] Source: Bloomberg
[7] Source: Bloomberg
[8] Source: Bloomberg
[9] Source: Bloomberg

$$\frac{RP_h}{Vol_h} \times Vol_e = RP_e$$

ESTIMATED MARKET RISK PREMIUM DERIVED FROM ANALYSTS LONG-TERM GROWTH ESTIMATES

[1] Estimated Weighted Index Dividend Yield	[2] Weighted Index Long-Term Growth Rate	[3] S&P 500 Est. Required Market Return
2.09%	10.95%	13.15%

[4] Current 30-Year Treasury (30-day average)	4.13%
[5] Implied Market Risk Premium:	9.02%
[6] percent of Index Capitalization Represented by Estimate:	96.97%

STANDARD AND POOR'S 500 INDEX

Name	Ticker	[7] Weight in Index	[8] Long-Term Growth Est.	[9] Cap-Weighted Long-Term Growth Est.	[10] Estimated Dividend Yield	[11] Cap-Weighted Dividend Yield
3M CO	MMM	0.58%	11.90%	0.07%	2.65%	0.02%
ABBOTT LABORATORIES	ABT	0.75%	12.00%	0.09%	3.72%	0.03%
ABERCROMBIE & FITCH CO-CL A	ANF	0.03%	17.13%	0.00%	2.27%	0.00%
ADOBE SYSTEMS INC	ADBE	0.14%	14.20%	0.02%	0.00%	0.00%
ADVANCED MICRO DEVICES	AMD	0.05%	12.50%	0.01%	0.00%	0.00%
AES CORP	AES	0.08%	6.00%	0.00%	n/a	0.00%
AETNA INC	AET	0.12%	12.25%	0.01%	0.08%	0.00%
AFLAC INC	AFL	0.21%	12.67%	0.03%	2.63%	0.01%
AGILENT TECHNOLOGIES INC	A	0.10%	15.00%	0.02%	0.00%	0.00%
AIR PRODUCTS & CHEMICALS INC	APD	0.14%	10.76%	0.02%	2.91%	0.00%
AIRGAS INC	ARG	0.05%	12.66%	0.01%	1.32%	0.00%
AK STEEL HOLDING CORP	AKS	0.01%	10.00%	0.00%	1.64%	0.00%
AKAMAI TECHNOLOGIES INC	AKAM	0.07%	14.50%	0.01%	0.00%	0.00%
ALCOA INC	AA	0.11%	9.00%	0.01%	1.16%	0.00%
ALLEGHENY ENERGY INC	AYE	0.04%	n/a	n/a	2.95%	0.00%
ALLEGHENY TECHNOLOGIES INC	ATI	0.05%	20.00%	0.01%	1.58%	0.00%
ALLERGAN INC	AGN	0.19%	14.46%	0.03%	0.43%	0.00%
ALLSTATE CORP	ALL	0.16%	7.60%	0.01%	2.75%	0.00%
ALTERA CORPORATION	ALTR	0.08%	19.33%	0.02%	0.84%	0.00%
ALTRIA GROUP INC	MO	0.43%	7.50%	0.03%	7.16%	0.03%
AMAZON.COM INC	AMZN	0.51%	26.43%	0.14%	0.00%	0.00%
AMEREN CORPORATION	AEE	0.06%	n/a	n/a	6.41%	0.00%
AMERICAN ELECTRIC POWER	AEP	0.16%	3.33%	0.01%	5.09%	0.01%
AMERICAN EXPRESS CO	AXP	0.50%	10.83%	0.05%	1.79%	0.01%
AMERICAN INTERNATIONAL GROUP	AIG	0.25%	9.00%	0.02%	n/a	0.00%
AMERICAN TOWER CORP-CL A	AMT	0.19%	21.02%	0.04%	0.00%	0.00%
AMERIPRISE FINANCIAL INC	AMP	0.10%	13.33%	0.01%	1.87%	0.00%
AMERISOURCEBERGEN CORP	ABC	0.09%	12.75%	0.01%	0.86%	0.00%
AMGEN INC	AMGN	0.53%	8.76%	0.05%	0.00%	0.00%
AMPHENOL CORP-CL A	APH	0.07%	17.50%	0.01%	0.15%	0.00%
ANADARKO PETROLEUM CORP	APC	0.19%	12.79%	0.02%	1.03%	0.00%
ANALOG DEVICES INC	ADI	0.09%	10.67%	0.01%	2.96%	0.00%
AON CORP	AON	0.10%	6.50%	0.01%	1.62%	0.00%
APACHE CORP	APA	0.30%	8.66%	0.03%	0.73%	0.00%
APARTMENT INVT & MGMT CO -A	AIV	0.02%	7.10%	0.00%	1.98%	0.00%
APOLLO GROUP INC-CL A	APOL	0.07%	16.97%	0.01%	0.00%	0.00%
APPLE INC	AAPL	2.40%	18.00%	0.43%	0.00%	0.00%
APPLIED MATERIALS INC	AMAT	0.17%	12.75%	0.02%	1.99%	0.00%
ARCHER-DANIELS-MIDLAND CO	ADM	0.17%	10.00%	0.02%	2.19%	0.00%
ASSURANT INC	AIZ	0.04%	9.67%	0.00%	1.71%	0.00%
AT&T INC	T	1.47%	6.80%	0.10%	6.97%	0.10%
AUTODESK INC	ADSK	0.06%	14.57%	0.01%	0.00%	0.00%
AUTOMATIC DATA PROCESSING	ADP	0.21%	11.35%	0.02%	3.34%	0.01%
AUTONATION INC	AN	0.03%	15.38%	0.01%	0.00%	0.00%
AUTOZONE INC	AZO	0.09%	14.23%	0.01%	0.00%	0.00%
AVALONBAY COMMUNITIES INC	AVB	0.08%	7.35%	0.01%	3.72%	0.00%
AVERY DENNISON CORP	AVY	0.04%	7.00%	0.00%	2.46%	0.00%
AVON PRODUCTS INC	AVP	0.12%	11.50%	0.01%	3.28%	0.00%
BAKER HUGHES INC	BHI	0.19%	2.30%	0.00%	1.36%	0.00%
BALL CORP	BLL	0.05%	7.40%	0.00%	0.75%	0.00%
BANK OF NEW YORK MELLON CORP	BK	0.32%	12.32%	0.04%	1.60%	0.01%

STANDARD AND POOR'S 500 INDEX

Name	Ticker	[7] Weight in Index	[8] Long-Term Growth Est.	[9] Cap-Weighted Long-Term Growth Est.	[10] Estimated Dividend Yield	[11] Cap-Weighted Dividend Yield
BANK OF AMERICA CORP	BAC	1.50%	6.50%	0.10%	0.28%	0.00%
BAXTER INTERNATIONAL INC	BAX	0.25%	9.88%	0.02%	2.80%	0.01%
BB&T CORP	BBT	0.19%	6.75%	0.01%	2.40%	0.00%
BECTON DICKINSON AND CO	BDX	0.16%	10.63%	0.02%	2.16%	0.00%
BED BATH & BEYOND INC	BBBY	0.10%	12.96%	0.01%	0.00%	0.00%
BEMIS COMPANY	BMS	0.03%	11.20%	0.00%	3.37%	0.00%
BERKSHIRE HATHAWAY INC-CL B	BRK/B	0.80%	n/a	n/a	n/a	0.00%
BEST BUY CO INC	BBY	0.15%	12.15%	0.02%	1.64%	0.00%
BIG LOTS INC	BIG	0.03%	14.20%	0.00%	n/a	0.00%
BIOGEN IDEC INC	BIIB	0.13%	7.78%	0.01%	0.00%	0.00%
BMC SOFTWARE INC	BMC	0.07%	11.48%	0.01%	n/a	0.00%
BOEING CO	BA	0.50%	14.53%	0.07%	2.68%	0.01%
BOSTON PROPERTIES INC	BXP	0.10%	4.88%	0.01%	2.74%	0.00%
BOSTON SCIENTIFIC CORP	BSX	0.09%	7.96%	0.01%	0.00%	0.00%
BRISTOL-MYERS SQUIBB CO	BMY	0.44%	4.57%	0.02%	4.99%	0.02%
BROADCOM CORP-CL A	BRCM	0.15%	21.00%	0.03%	0.96%	0.00%
BROWN-FORMAN CORP-CLASS B	BF/B	0.05%	n/a	n/a	2.17%	0.00%
CA INC	CA	0.10%	11.00%	0.01%	0.88%	0.00%
CABOT OIL & GAS CORP	COG	0.03%	11.50%	0.00%	0.34%	0.00%
CAMERON INTERNATIONAL CORP	CAM	0.08%	55.50%	0.05%	0.00%	0.00%
CAMPBELL SOUP CO	CPB	0.13%	8.02%	0.01%	3.02%	0.00%
CAPITAL ONE FINANCIAL CORP	COF	0.19%	9.90%	0.02%	0.57%	0.00%
CARDINAL HEALTH INC	CAH	0.13%	11.33%	0.01%	2.09%	0.00%
CAREFUSION CORP	CFN	0.05%	10.63%	0.01%	0.00%	0.00%
CARNIVAL CORP	CCL	0.20%	14.96%	0.03%	1.34%	0.00%
CATERPILLAR INC	CAT	0.40%	19.00%	0.08%	2.76%	0.01%
CB RICHARD ELLIS GROUP INC-A	CBG	0.05%	13.33%	0.01%	0.00%	0.00%
CBS CORP-CLASS B NON VOTING	CBS	0.09%	8.35%	0.01%	1.51%	0.00%
CELGENE CORP	CELG	0.24%	23.16%	0.06%	0.00%	0.00%
CENTERPOINT ENERGY INC	CNP	0.06%	3.73%	0.00%	5.85%	0.00%
CENTURYLINK INC	CTL	0.10%	0.37%	0.00%	8.64%	0.01%
CEPHALON INC	CEPH	0.04%	10.44%	0.00%	n/a	0.00%
CERNER CORP	CERN	0.07%	18.12%	0.01%	0.00%	0.00%
CF INDUSTRIES HOLDINGS INC	CF	0.05%	15.50%	0.01%	0.61%	0.00%
C.H. ROBINSON WORLDWIDE INC	CHRW	0.10%	15.33%	0.01%	1.76%	0.00%
CHESAPEAKE ENERGY CORP	CHK	0.14%	9.40%	0.01%	1.41%	0.00%
CHEVRON CORP	CVX	1.42%	19.16%	0.27%	4.13%	0.06%
CHUBB CORP	CB	0.17%	8.73%	0.01%	2.93%	0.00%
CIGNA CORP	CI	0.09%	8.50%	0.01%	0.11%	0.00%
CINCINNATI FINANCIAL CORP	CINF	0.04%	n/a	n/a	6.10%	0.00%
CINTAS CORP	CTAS	0.04%	10.67%	0.00%	2.06%	0.00%
CISCO SYSTEMS INC	CSCO	1.27%	11.93%	0.15%	0.00%	0.00%
CITIGROUP INC	C	1.14%	9.33%	0.11%	0.00%	0.00%
CITRIX SYSTEMS INC	CTXS	0.08%	11.36%	0.01%	0.00%	0.00%
CLIFFS NATURAL RESOURCES INC	CLF	0.07%	13.50%	0.01%	0.78%	0.00%
CLOROX COMPANY	CLX	0.09%	9.50%	0.01%	3.20%	0.00%
CME GROUP INC	CME	0.19%	13.67%	0.03%	1.64%	0.00%
CMS ENERGY CORP	CMS	0.04%	7.40%	0.00%	4.11%	0.00%
COACH INC	COH	0.12%	14.50%	0.02%	0.81%	0.00%
COCA-COLA CO/THE	KO	1.20%	8.50%	0.10%	3.46%	0.04%
COCA-COLA ENTERPRISES	CCE	0.14%	9.00%	0.01%	1.33%	0.00%
COGNIZANT TECH SOLUTIONS-A	CTSH	0.16%	16.83%	0.03%	0.00%	0.00%
COLGATE-PALMOLIVE CO	CL	0.40%	9.80%	0.04%	2.53%	0.01%
COMCAST CORP-CLASS A	CMCSA	0.38%	14.97%	0.06%	2.09%	0.01%
COMERICA INC	CMA	0.07%	8.38%	0.01%	0.53%	0.00%
COMPUTER SCIENCES CORP	CSC	0.07%	9.00%	0.01%	0.87%	0.00%
COMPUWARE CORP	CPWR	0.02%	5.00%	0.00%	n/a	0.00%
CONAGRA FOODS INC	CAG	0.11%	9.07%	0.01%	3.63%	0.00%
CONOCOPHILLIPS	COP	0.77%	22.92%	0.18%	4.24%	0.03%
CONSOLIDATED EDISON INC	ED	0.13%	4.02%	0.01%	5.46%	0.01%
CONSOL ENERGY INC	CNX	0.08%	9.50%	0.01%	1.17%	0.00%
CONSTELLATION ENERGY GROUP	CEG	0.07%	3.00%	0.00%	2.93%	0.00%
CONSTELLATION BRANDS INC-A	STZ	0.03%	7.00%	0.00%	0.00%	0.00%
CORNING INC	GLW	0.26%	12.00%	0.03%	1.22%	0.00%
COSTCO WHOLESALE CORP	COST	0.25%	12.76%	0.03%	1.37%	0.00%
COVENTRY HEALTH CARE INC	CVH	0.03%	6.38%	0.00%	0.00%	0.00%
CR BARD INC	BCR	0.08%	12.00%	0.01%	0.88%	0.00%

STANDARD AND POOR'S 500 INDEX

Name	Ticker	[7] Weight in Index	[8] Long-Term Growth Est.	[9] Cap-Weighted Long-Term Growth Est.	[10] Estimated Dividend Yield	[11] Cap-Weighted Dividend Yield
CSX CORP	CSX	0.20%	9.94%	0.02%	1.92%	0.00%
CUMMINS INC	CMI	0.14%	11.50%	0.02%	1.10%	0.00%
CVS CAREMARK CORP	CVS	0.41%	12.75%	0.05%	1.12%	0.00%
DANAHER CORP	DHR	0.25%	14.46%	0.04%	0.20%	0.00%
DARDEN RESTAURANTS INC	DRI	0.06%	12.39%	0.01%	3.15%	0.00%
DAVITA INC	DVA	0.07%	12.06%	0.01%	0.00%	0.00%
DEAN FOODS CO	DF	0.02%	9.24%	0.00%	0.00%	0.00%
DEERE & CO	DE	0.25%	8.75%	0.02%	2.12%	0.01%
DELL INC	DELL	0.25%	12.33%	0.03%	0.00%	0.00%
DENBURY RESOURCES INC	DNR	0.06%	5.50%	0.00%	0.00%	0.00%
DENTSPLY INTERNATIONAL INC	XRAY	0.05%	11.75%	0.01%	0.69%	0.00%
DEVON ENERGY CORPORATION	DVN	0.28%	6.29%	0.02%	1.05%	0.00%
DEVRY INC	DV	0.04%	20.67%	0.01%	0.36%	0.00%
DIAMOND OFFSHORE DRILLING	DO	0.09%	16.00%	0.01%	9.79%	0.01%
DIRECTV-CLASS A	DTV	0.31%	19.16%	0.06%	0.00%	0.00%
DISCOVER FINANCIAL SERVICES	DFS	0.08%	6.00%	0.00%	0.65%	0.00%
DISCOVERY COMMUNICATIONS-A	DISCA	0.05%	20.60%	0.01%	0.00%	0.00%
DOMINION RESOURCES INC/VA	D	0.24%	3.25%	0.01%	4.68%	0.01%
DOVER CORP	DOV	0.08%	12.00%	0.01%	2.52%	0.00%
DOW CHEMICAL	DOW	0.29%	7.50%	0.02%	3.50%	0.01%
DR HORTON INC	DHI	0.03%	7.67%	0.00%	1.50%	0.00%
DR PEPPER SNAPPLE GROUP INC	DPS	0.10%	9.00%	0.01%	2.22%	0.00%
DTE ENERGY COMPANY	DTE	0.08%	4.50%	0.00%	4.68%	0.00%
DU PONT (E.I.) DE NEMOURS	DD	0.33%	10.50%	0.03%	4.68%	0.02%
DUKE ENERGY CORP	DUK	0.22%	1.00%	0.00%	6.08%	0.01%
DUN & BRADSTREET CORP	DNB	0.03%	10.73%	0.00%	n/a	0.00%
E*TRADE FINANCIAL CORP	ETFC	0.03%	n/a	n/a	0.00%	0.00%
EASTMAN CHEMICAL COMPANY	EMN	0.04%	11.50%	0.00%	3.22%	0.00%
EASTMAN KODAK CO	EK	0.01%	10.00%	0.00%	0.00%	0.00%
EATON CORP	ETN	0.11%	10.25%	0.01%	3.10%	0.00%
EBAY INC	EBAY	0.27%	12.51%	0.03%	0.00%	0.00%
ECOLAB INC	ECL	0.11%	13.24%	0.01%	1.31%	0.00%
EDISON INTERNATIONAL	EIX	0.11%	1.00%	0.00%	4.00%	0.00%
EL PASO CORP	EP	0.08%	5.93%	0.00%	0.35%	0.00%
ELECTRONIC ARTS INC	ERTS	0.05%	15.29%	0.01%	0.00%	0.00%
ELI LILLY & CO	LLY	0.40%	n/a	n/a	5.69%	0.00%
EMC CORP/MASS	EMC	0.39%	15.46%	0.06%	0.00%	0.00%
EMERSON ELECTRIC CO	EMR	0.34%	13.27%	0.05%	3.13%	0.01%
ENTERGY CORP	ETR	0.14%	3.80%	0.01%	4.52%	0.01%
EOG RESOURCES INC	EOG	0.26%	15.20%	0.04%	0.63%	0.00%
EQT CORP	EQT	0.05%	17.00%	0.01%	2.49%	0.00%
EQUIFAX INC	EFX	0.04%	9.75%	0.00%	0.56%	0.00%
EQUITY RESIDENTIAL	EQR	0.12%	5.86%	0.01%	3.17%	0.00%
ESTEE LAUDER COMPANIES-CL A	EL	0.07%	14.25%	0.01%	1.00%	0.00%
EXELON CORP	EXC	0.26%	n/a	n/a	5.59%	0.00%
EXPEDIA INC	EXPE	0.05%	15.00%	0.01%	0.63%	0.00%
EXPEDITORS INTL WASH INC	EXPD	0.08%	17.30%	0.01%	1.21%	0.00%
EXPRESS SCRIPTS INC	ESRX	0.27%	20.61%	0.06%	0.00%	0.00%
EXXON MOBIL CORP	XOM	3.03%	14.56%	0.44%	3.04%	0.09%
FAMILY DOLLAR STORES	FDO	0.05%	13.53%	0.01%	1.53%	0.00%
FASTENAL CO	FAST	0.08%	20.85%	0.02%	1.56%	0.00%
FEDERATED INVESTORS INC-CL B	FII	0.02%	6.00%	0.00%	9.87%	0.00%
FEDEX CORP	FDX	0.23%	14.04%	0.03%	0.67%	0.00%
FIDELITY NATIONAL INFORMATIO	FIS	0.11%	13.27%	0.01%	0.74%	0.00%
FIFTH THIRD BANCORP	FITB	0.10%	4.40%	0.00%	0.32%	0.00%
FIRST HORIZON NATIONAL CORP	FHN	0.03%	3.67%	0.00%	0.03%	0.00%
FIRST SOLAR INC	FSLR	0.10%	19.23%	0.02%	0.00%	0.00%
FIRSTENERGY CORP	FE	0.11%	3.67%	0.00%	6.26%	0.01%
FISERV INC	FISV	0.07%	13.00%	0.01%	0.00%	0.00%
FLIR SYSTEMS INC	FLIR	0.05%	15.77%	0.01%	n/a	0.00%
FLOWSERVE CORP	FLS	0.05%	9.00%	0.00%	1.30%	0.00%
FLUOR CORP	FLR	0.08%	9.50%	0.01%	1.22%	0.00%
FMC CORP	FMC	0.04%	8.00%	0.00%	0.86%	0.00%
FMC TECHNOLOGIES INC	FTI	0.07%	16.00%	0.01%	0.00%	0.00%
FORD MOTOR CO	F	0.36%	14.18%	0.05%	0.00%	0.00%
FOREST LABORATORIES INC	FRX	0.08%	2.57%	0.00%	0.00%	0.00%
FORTUNE BRANDS INC	FO	0.06%	11.33%	0.01%	1.96%	0.00%

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Name	Ticker	[7] Weight in Index	[8] Long-Term Growth Est.	[9] Cap-Weighted Long-Term Growth Est.	[10] Estimated Dividend Yield	[11] Cap-Weighted Dividend Yield
NEXTERA ENERGY INC	NEE	0.21%	6.15%	0.01%	4.03%	0.01%
FRANKLIN RESOURCES INC	BEN	0.20%	6.83%	0.01%	4.39%	0.01%
FREEPORT-MCMORAN COPPER	FCX	0.27%	10.00%	0.03%	1.59%	0.00%
FRONTIER COMMUNICATIONS CORP	FTR	0.02%	n/a	n/a	12.36%	0.00%
GAMESTOP CORP-CLASS A	GME	0.03%	11.00%	0.00%	n/a	0.00%
GANNETT CO	GCI	0.03%	5.50%	0.00%	1.16%	0.00%
GAP INC/THE	GPS	0.13%	10.81%	0.01%	1.96%	0.00%
GENERAL DYNAMICS CORP	GD	0.24%	7.83%	0.02%	2.73%	0.01%
GENERAL ELECTRIC CO	GE	1.60%	11.62%	0.19%	2.88%	0.05%
GENERAL MILLS INC	GIS	0.24%	9.26%	0.02%	3.00%	0.01%
GENUINE PARTS CO	GPC	0.07%	8.96%	0.01%	4.09%	0.00%
GENWORTH FINANCIAL INC-CL A	GNW	0.07%	7.50%	0.01%	0.00%	0.00%
GENZYME CORP	GENZ	0.14%	19.53%	0.03%	0.00%	0.00%
GILEAD SCIENCES INC	GILD	0.32%	14.81%	0.05%	0.00%	0.00%
GOLDMAN SACHS GROUP INC	GS	0.70%	8.17%	0.06%	1.06%	0.01%
GOODRICH CORP	GR	0.09%	7.98%	0.01%	1.57%	0.00%
GOODYEAR TIRE & RUBBER CO	GT	0.03%	21.74%	0.01%	0.00%	0.00%
GOOGLE INC-CL A	GOOG	1.15%	19.85%	0.23%	0.00%	0.00%
H&R BLOCK INC	HRB	0.05%	11.00%	0.01%	3.79%	0.00%
HALLIBURTON CO	HAL	0.23%	4.50%	0.01%	1.43%	0.00%
HARLEY-DAVIDSON INC	HOG	0.06%	9.33%	0.01%	1.80%	0.00%
HARMAN INTERNATIONAL	HAR	0.02%	30.00%	0.01%	0.16%	0.00%
HARRIS CORP	HRS	0.06%	6.00%	0.00%	2.02%	0.00%
HARTFORD FINANCIAL SVCS GRP	HIG	0.10%	11.48%	0.01%	0.82%	0.00%
HASBRO INC	HAS	0.06%	10.00%	0.01%	2.39%	0.00%
HCP INC	HCP	0.10%	7.32%	0.01%	5.63%	0.01%
HEALTH CARE REIT INC	HCN	0.05%	8.13%	0.00%	6.36%	0.00%
HELMERICH & PAYNE	HP	0.04%	16.00%	0.01%	0.52%	0.00%
HERSHEY CO/THE	HSY	0.08%	7.83%	0.01%	2.70%	0.00%
HESS CORP	HES	0.17%	6.91%	0.01%	0.78%	0.00%
HEWLETT-PACKARD CO	HPQ	1.05%	12.67%	0.13%	0.73%	0.01%
HJ HEINZ CO	HNZ	0.14%	7.14%	0.01%	4.09%	0.01%
HOME DEPOT INC	HD	0.50%	12.85%	0.06%	3.34%	0.02%
HONEYWELL INTERNATIONAL INC	HON	0.31%	10.28%	0.03%	3.07%	0.01%
HORMEL FOODS CORP	HRL	0.06%	11.00%	0.01%	2.06%	0.00%
HOSPIRA INC	HSP	0.10%	11.47%	0.01%	n/a	0.00%
HOST HOTELS & RESORTS INC	HST	0.09%	5.40%	0.01%	0.37%	0.00%
HUDSON CITY BANCORP INC	HCBK	0.07%	12.00%	0.01%	4.87%	0.00%
HUMANA INC	HUM	0.08%	6.68%	0.01%	0.00%	0.00%
HUNTINGTON BANCSHARES INC	HBAN	0.04%	n/a	n/a	0.70%	0.00%
INTL BUSINESS MACHINES CORP	IBM	1.64%	11.40%	0.19%	1.82%	0.03%
ILLINOIS TOOL WORKS	ITW	0.22%	15.65%	0.03%	3.08%	0.01%
INTEGRYS ENERGY GROUP INC	TEG	0.04%	9.40%	0.00%	6.13%	0.00%
INTEL CORP	INTC	1.13%	10.90%	0.12%	3.18%	0.04%
INTERCONTINENTALEXCHANGE INC	ICE	0.09%	17.75%	0.02%	0.00%	0.00%
INTERPUBLIC GROUP OF COS INC	IPG	0.04%	12.00%	0.00%	0.00%	0.00%
INTL FLAVORS & FRAGRANCES	IFF	0.04%	9.25%	0.00%	2.45%	0.00%
INTL GAME TECHNOLOGY	IGT	0.05%	16.60%	0.01%	1.50%	0.00%
INTERNATIONAL PAPER CO	IP	0.10%	6.00%	0.01%	1.74%	0.00%
INTUIT INC	INTU	0.11%	14.75%	0.02%	0.00%	0.00%
INTUITIVE SURGICAL INC	ISRG	0.13%	24.80%	0.03%	n/a	0.00%
INVESCO LTD	IVZ	0.08%	12.00%	0.01%	2.49%	0.00%
IRON MOUNTAIN INC	IRM	0.05%	18.00%	0.01%	1.01%	0.00%
ITT CORP	ITT	0.09%	11.00%	0.01%	2.03%	0.00%
J.C. PENNEY CO INC	JCP	0.05%	13.33%	0.01%	3.69%	0.00%
JABIL CIRCUIT INC	JBL	0.03%	15.00%	0.00%	2.05%	0.00%
JACOBS ENGINEERING GROUP INC	JEC	0.05%	13.75%	0.01%	0.00%	0.00%
JANUS CAPITAL GROUP INC	JNS	0.02%	0.75%	0.00%	0.44%	0.00%
JDS UNIPHASE CORP	JDSU	0.02%	15.50%	0.00%	0.00%	0.00%
JM SMUCKER CO/THE	SJM	0.07%	7.60%	0.01%	2.67%	0.00%
JOHNSON CONTROLS INC	JCI	0.19%	15.03%	0.03%	1.92%	0.00%
JOHNSON & JOHNSON	JNJ	1.69%	7.49%	0.13%	3.48%	0.06%
JPMORGAN CHASE & CO	JPM	1.52%	8.40%	0.13%	1.03%	0.02%
JUNIPER NETWORKS INC	JNPR	0.13%	16.60%	0.02%	0.00%	0.00%
KELLOGG CO	K	0.20%	9.34%	0.02%	3.08%	0.01%
KEYCORP	KEY	0.07%	4.00%	0.00%	0.50%	0.00%
KIMBERLY-CLARK CORP	KMB	0.26%	8.23%	0.02%	4.28%	0.01%

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KIMCO REALTY CORP	KIM	0.06%	2.48%	0.00%	4.64%	0.00%
KING PHARMACEUTICALS INC	KG	0.02%	16.28%	0.00%	0.00%	0.00%
KLA-TENCOR CORPORATION	KLAC	0.05%	6.00%	0.00%	2.02%	0.00%
KOHLS CORP	KSS	0.15%	13.89%	0.02%	0.00%	0.00%
KRAFT FOODS INC-CLASS A	KFT	0.50%	7.73%	0.04%	4.17%	0.02%
KROGER CO	KR	0.13%	10.32%	0.01%	1.98%	0.00%
L-3 COMMUNICATIONS HOLDINGS	LLL	0.09%	9.51%	0.01%	2.19%	0.00%
LABORATORY CRP OF AMER HLDGS	LH	0.08%	12.20%	0.01%	0.00%	0.00%
LEGG MASON INC	LM	0.05%	7.50%	0.00%	0.48%	0.00%
LEGGETT & PLATT INC	LEG	0.03%	20.00%	0.01%	5.11%	0.00%
LENNAR CORP-CL A	LEN	0.02%	8.00%	0.00%	1.00%	0.00%
LEUCADIA NATIONAL CORP	LUK	0.05%	n/a	n/a	n/a	0.00%
LEXMARK INTERNATIONAL INC-A	LXK	0.03%	n/a	n/a	0.00%	0.00%
LIFE TECHNOLOGIES CORP	LIFE	0.09%	10.23%	0.01%	0.00%	0.00%
LINCOLN NATIONAL CORP	LNC	0.08%	8.55%	0.01%	0.16%	0.00%
LINEAR TECHNOLOGY CORP	LLTC	0.06%	12.00%	0.01%	3.19%	0.00%
LOCKHEED MARTIN CORP	LMT	0.29%	8.21%	0.02%	3.42%	0.01%
LOEWS CORP	L	0.14%	n/a	n/a	0.75%	0.00%
LORILLARD INC	LO	0.11%	6.00%	0.01%	5.87%	0.01%
LOWE'S COS INC	LOW	0.30%	14.21%	0.04%	1.78%	0.01%
LSI CORP	LSI	0.03%	2.00%	0.00%	0.00%	0.00%
LTD BRANDS INC	LTD	0.08%	14.71%	0.01%	7.10%	0.01%
M & T BANK CORP	MTB	0.11%	4.63%	0.00%	3.26%	0.00%
MACY'S INC	M	0.08%	9.08%	0.01%	1.10%	0.00%
MARATHON OIL CORP	MRO	0.23%	12.67%	0.03%	3.11%	0.01%
MARRIOTT INTERNATIONAL-CL A	MAR	0.11%	12.25%	0.01%	0.52%	0.00%
MARSH & MCLENNAN COS	MMC	0.13%	7.00%	0.01%	3.57%	0.00%
MARSHALL & ILSLEY CORP	MI	0.04%	7.60%	0.00%	0.54%	0.00%
MASCO CORP	MAS	0.04%	12.50%	0.01%	2.79%	0.00%
MASSEY ENERGY CO	MEE	0.03%	11.00%	0.00%	0.82%	0.00%
MASTERCARD INC-CLASS A	MA	0.25%	18.58%	0.05%	0.30%	0.00%
MATTEL INC	MAT	0.08%	8.50%	0.01%	3.78%	0.00%
MCAFEE INC	MFE	0.05%	13.62%	0.01%	0.00%	0.00%
MCCORMICK & CO-NON VTG SHRS	MKC	0.05%	8.40%	0.00%	2.67%	0.00%
MCDONALD'S CORP	MCD	0.73%	10.18%	0.07%	3.43%	0.03%
MCGRAW-HILL COMPANIES INC	MHP	0.09%	9.43%	0.01%	3.43%	0.00%
MCKESSON CORP	MCK	0.19%	11.73%	0.02%	0.83%	0.00%
MEAD JOHNSON NUTRITION CO	MJN	0.11%	9.35%	0.01%	1.67%	0.00%
MEADWESTVACO CORP	MWV	0.04%	10.00%	0.00%	4.07%	0.00%
MEDCO HEALTH SOLUTIONS INC	MHS	0.26%	16.81%	0.04%	0.05%	0.00%
MEDTRONIC INC	MDT	0.41%	10.86%	0.04%	2.43%	0.01%
MEMC ELECTRONIC MATERIALS	WFR	0.02%	17.75%	0.00%	0.00%	0.00%
MERCK & CO. INC.	MRK	1.13%	5.95%	0.07%	4.31%	0.05%
MEREDITH CORP	MDP	0.01%	15.00%	0.00%	2.87%	0.00%
METLIFE INC	MET	0.32%	9.77%	0.03%	1.97%	0.01%
METROPCS COMMUNICATIONS INC	PCS	0.03%	18.93%	0.01%	0.00%	0.00%
MICROCHIP TECHNOLOGY INC	MCHP	0.05%	10.00%	0.01%	4.92%	0.00%
MICRON TECHNOLOGY INC	MU	0.09%	11.75%	0.01%	0.00%	0.00%
MICROSOFT CORP	MSFT	2.12%	11.53%	0.24%	2.23%	0.05%
MILLIPORE CORP	MIL	0.06%	n/a	n/a	0.00%	0.00%
MOLEX INC	MOLX	0.02%	12.50%	0.00%	3.32%	0.00%
MOLSON COORS BREWING CO -B	TAP	0.07%	12.00%	0.01%	2.46%	0.00%
MONSANTO CO	MON	0.26%	12.50%	0.03%	2.34%	0.01%
MONSTER WORLDWIDE INC	MWW	0.02%	19.25%	0.00%	0.00%	0.00%
MOODY'S CORP	MCO	0.05%	11.00%	0.01%	2.03%	0.00%
MORGAN STANLEY	MS	0.34%	n/a	n/a	0.85%	0.00%
MOTOROLA INC	MOT	0.16%	8.60%	0.01%	0.00%	0.00%
MURPHY OIL CORP	MUR	0.10%	15.00%	0.01%	2.05%	0.00%
MYLAN INC	MYL	0.06%	15.18%	0.01%	1.87%	0.00%
NABORS INDUSTRIES LTD	NBR	0.05%	7.50%	0.00%	0.00%	0.00%
NASDAQ OMX GROUP/THE	NDAQ	0.04%	13.14%	0.01%	0.00%	0.00%
NATIONAL OILWELL VARCO INC	NOV	0.14%	11.50%	0.02%	1.20%	0.00%
NATIONAL SEMICONDUCTOR CORP	NSM	0.03%	9.67%	0.00%	2.43%	0.00%
NETAPP INC	NTAP	0.14%	18.00%	0.02%	0.00%	0.00%
NEW YORK TIMES CO -CL A	NYT	0.01%	12.00%	0.00%	n/a	0.00%
NEWELL RUBBERMAID INC	NWL	0.04%	10.20%	0.00%	1.52%	0.00%
NEWMONT MINING CORP	NEM	0.31%	20.15%	0.06%	0.71%	0.00%

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NEWS CORP-CL A	NWSA	0.23%	5.74%	0.01%	1.21%	0.00%
NICOR INC	GAS	0.02%	3.50%	0.00%	4.53%	0.00%
NIKE INC -CL B	NKE	0.28%	13.37%	0.04%	1.73%	0.00%
NISOURCE INC	NI	0.04%	4.87%	0.00%	6.31%	0.00%
NOBLE ENERGY INC	NBL	0.11%	7.00%	0.01%	1.20%	0.00%
NORDSTROM INC	JWN	0.07%	11.60%	0.01%	2.01%	0.00%
NORFOLK SOUTHERN CORP	NSC	0.22%	9.76%	0.02%	2.09%	0.00%
NORTHEAST UTILITIES	NU	0.05%	7.66%	0.00%	3.99%	0.00%
NORTHERN TRUST CORP	NTRS	0.12%	10.56%	0.01%	2.38%	0.00%
NORTHROP GRUMMAN CORP	NOC	0.17%	10.24%	0.02%	3.28%	0.01%
NOVELL INC	NOVL	0.02%	8.33%	0.00%	n/a	0.00%
NOVELLUS SYSTEMS INC	NVLS	0.03%	18.00%	0.00%	0.00%	0.00%
NRG ENERGY INC	NRG	0.06%	2.51%	0.00%	0.14%	0.00%
NUCOR CORP	NUE	0.13%	15.00%	0.02%	3.68%	0.00%
NVIDIA CORP	NVDA	0.06%	16.33%	0.01%	0.00%	0.00%
NYSE EURONEXT	NYX	0.08%	11.20%	0.01%	4.30%	0.00%
O'REILLY AUTOMOTIVE INC	ORLY	0.07%	17.33%	0.01%	0.00%	0.00%
OCCIDENTAL PETROLEUM CORP	OXY	0.66%	8.01%	0.05%	1.75%	0.01%
OFFICE DEPOT INC	ODP	0.01%	10.67%	0.00%	0.00%	0.00%
OMNICOM GROUP	OMC	0.11%	11.33%	0.01%	2.28%	0.00%
ONEOK INC	OKE	0.05%	5.83%	0.00%	4.03%	0.00%
ORACLE CORP	ORCL	1.12%	13.81%	0.15%	0.99%	0.01%
OWENS-ILLINOIS INC	OI	0.05%	5.00%	0.00%	0.00%	0.00%
PACCAR INC	PCAR	0.15%	11.00%	0.02%	1.03%	0.00%
PACTIV CORPORATION	PTV	0.04%	11.00%	0.00%	0.00%	0.00%
PALL CORP	PLL	0.04%	12.33%	0.01%	1.69%	0.00%
PARKER HANNIFIN CORP	PH	0.09%	8.50%	0.01%	1.80%	0.00%
PATTERSON COS INC	PDCO	0.04%	14.33%	0.01%	1.39%	0.00%
PAYCHEX INC	PAYX	0.10%	11.99%	0.01%	4.83%	0.00%
PEABODY ENERGY CORP	BTU	0.11%	9.00%	0.01%	0.69%	0.00%
PEOPLE'S UNITED FINANCIAL	PBCT	0.05%	7.75%	0.00%	4.47%	0.00%
PEPCO HOLDINGS INC	POM	0.04%	7.00%	0.00%	6.87%	0.00%
PEPSICO INC	PEP	1.02%	9.80%	0.10%	3.09%	0.03%
PERKINELMER INC	PKI	0.03%	14.75%	0.00%	1.34%	0.00%
PFIZER INC	PFE	1.19%	2.68%	0.03%	5.03%	0.06%
P G & E CORP	PCG	0.16%	7.25%	0.01%	4.38%	0.01%
PHILIP MORRIS INTERNATIONAL	PM	0.88%	9.80%	0.09%	5.30%	0.05%
PINNACLE WEST CAPITAL	PNW	0.04%	6.20%	0.00%	5.75%	0.00%
PIONEER NATURAL RESOURCES CO	PXD	0.07%	12.25%	0.01%	0.22%	0.00%
PITNEY BOWES INC	PBI	0.05%	n/a	n/a	6.63%	0.00%
PLUM CREEK TIMBER CO	PCL	0.06%	5.00%	0.00%	4.65%	0.00%
PNC FINANCIAL SERVICES GROUP	PNC	0.31%	5.80%	0.02%	0.66%	0.00%
POLO RALPH LAUREN CORP	RL	0.05%	12.00%	0.01%	0.42%	0.00%
PPG INDUSTRIES INC	PPG	0.10%	3.70%	0.00%	3.56%	0.00%
PPL CORPORATION	PPL	0.10%	3.30%	0.00%	5.61%	0.01%
PRAXAIR INC	PX	0.24%	11.17%	0.03%	2.31%	0.01%
PRECISION CASTPARTS CORP	PCP	0.15%	8.90%	0.01%	0.12%	0.00%
PRICELINE.COM INC	PCLN	0.09%	19.20%	0.02%	0.00%	0.00%
PRINCIPAL FINANCIAL GROUP	PFG	0.08%	12.70%	0.01%	2.22%	0.00%
PROCTER & GAMBLE CO/THE	PG	1.79%	9.20%	0.16%	2.91%	0.05%
PROGRESS ENERGY INC	PGN	0.12%	4.25%	0.00%	6.32%	0.01%
PROGRESSIVE CORP	PGR	0.13%	5.67%	0.01%	1.08%	0.00%
PROLOGIS	PLD	0.05%	22.26%	0.01%	5.63%	0.00%
PRUDENTIAL FINANCIAL INC	PRU	0.26%	11.28%	0.03%	1.55%	0.00%
PUBLIC SERVICE ENTERPRISE GP	PEG	0.17%	1.00%	0.00%	4.31%	0.01%
PUBLIC STORAGE	PSA	0.16%	3.96%	0.01%	3.34%	0.01%
PULTE GROUP INC	PHM	0.03%	10.00%	0.00%	0.04%	0.00%
QLOGIC CORP	QLGC	0.02%	11.50%	0.00%	0.00%	0.00%
QUALCOMM INC	QCOM	0.56%	16.25%	0.09%	2.16%	0.01%
QUANTA SERVICES INC	PWR	0.05%	16.40%	0.01%	n/a	0.00%
QUEST DIAGNOSTICS	DGX	0.09%	11.88%	0.01%	0.84%	0.00%
QUESTAR CORP	STR	0.08%	4.00%	0.00%	1.14%	0.00%
QWEST COMMUNICATIONS INTL	Q	0.09%	3.46%	0.00%	6.07%	0.01%
RADIOSHACK CORP	RSH	0.03%	7.42%	0.00%	1.27%	0.00%
RANGE RESOURCES CORP	RRC	0.07%	14.60%	0.01%	0.38%	0.00%
RAYTHEON COMPANY	RTN	0.19%	8.57%	0.02%	2.92%	0.01%
RED HAT INC	RHT	0.06%	18.00%	0.01%	0.00%	0.00%

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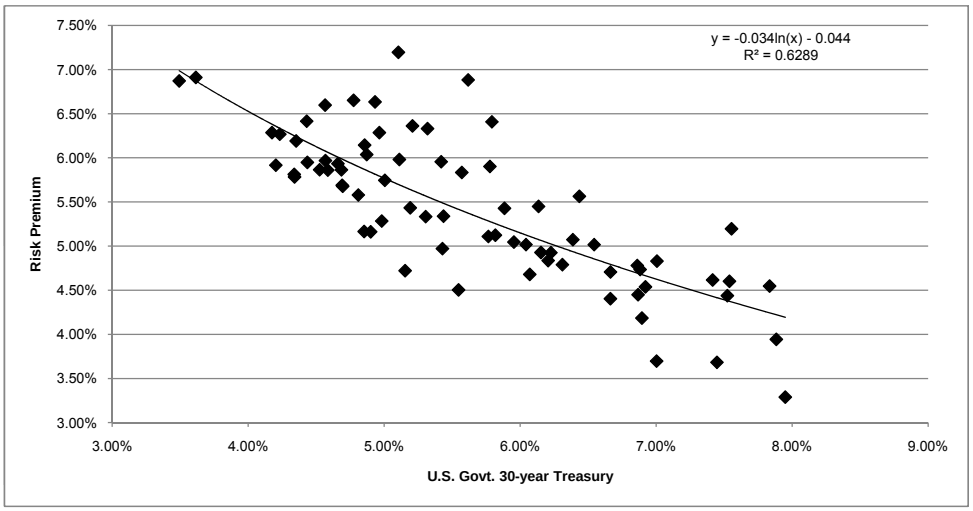
REGIONS FINANCIAL CORP	RF	0.08%	5.67%	0.00%	0.59%	0.00%
REPUBLIC SERVICES INC	RSG	0.12%	13.00%	0.02%	2.54%	0.00%
REYNOLDS AMERICAN INC	RAI	0.16%	6.00%	0.01%	6.90%	0.01%
ROBERT HALF INTL INC	RHI	0.04%	16.50%	0.01%	2.10%	0.00%
ROCKWELL AUTOMATION INC	ROK	0.07%	22.87%	0.02%	2.37%	0.00%
ROCKWELL COLLINS INC.	COL	0.09%	7.33%	0.01%	1.81%	0.00%
ROPER INDUSTRIES INC	ROP	0.05%	13.50%	0.01%	0.65%	0.00%
ROSS STORES INC	ROST	0.07%	14.00%	0.01%	1.23%	0.00%
ROWAN COMPANIES INC	RDC	0.03%	16.00%	0.00%	0.25%	0.00%
RR DONNELLEY & SONS CO	RRD	0.04%	9.00%	0.00%	6.25%	0.00%
RYDER SYSTEM INC	R	0.02%	14.03%	0.00%	2.45%	0.00%
SAFEWAY INC	SWY	0.08%	9.84%	0.01%	2.14%	0.00%
SAIC INC	SAI	0.07%	11.70%	0.01%	n/a	0.00%
SALESFORCE.COM INC	CRM	0.11%	30.18%	0.03%	0.00%	0.00%
SANDISK CORP	SNDK	0.10%	15.00%	0.02%	0.00%	0.00%
SARA LEE CORP	SLE	0.10%	9.16%	0.01%	3.09%	0.00%
SCANA CORP	SCG	0.05%	3.93%	0.00%	5.27%	0.00%
SCHLUMBERGER LTD	SLB	0.69%	14.40%	0.10%	1.53%	0.01%
SCHWAB (CHARLES) CORP	SCHW	0.18%	13.00%	0.02%	1.67%	0.00%
SCRIPPS NETWORKS INTER-CL A	SNI	0.06%	13.82%	0.01%	0.47%	0.00%
SEALED AIR CORP	SEE	0.03%	6.00%	0.00%	1.71%	0.00%
SEARS HOLDINGS CORP	SHLD	0.08%	10.00%	0.01%	0.00%	0.00%
SEMPRA ENERGY	SRE	0.12%	6.50%	0.01%	3.42%	0.00%
SHERWIN-WILLIAMS CO/THE	SHW	0.08%	7.99%	0.01%	2.07%	0.00%
SIGMA-ALDRICH	SIAL	0.06%	9.00%	0.01%	1.26%	0.00%
SIMON PROPERTY GROUP INC	SPG	0.25%	4.69%	0.01%	2.97%	0.01%
SLM CORP	SLM	0.05%	6.00%	0.00%	0.00%	0.00%
SMITH INTERNATIONAL INC	SII	0.10%	16.00%	0.02%	1.20%	0.00%
SNAP-ON INC	SNA	0.02%	15.00%	0.00%	n/a	0.00%
SOUTHERN CO	SO	0.28%	5.07%	0.01%	5.39%	0.02%
SOUTHWEST AIRLINES CO	LUV	0.09%	8.33%	0.01%	0.16%	0.00%
SOUTHWESTERN ENERGY CO	SWN	0.14%	26.00%	0.04%	0.00%	0.00%
SPECTRA ENERGY CORP	SE	0.14%	6.67%	0.01%	4.90%	0.01%
SPRINT NEXTEL CORP	S	0.13%	4.50%	0.01%	0.00%	0.00%
ST JUDE MEDICAL INC	STJ	0.12%	13.21%	0.02%	0.00%	0.00%
STANLEY BLACK & DECKER INC	SWK	0.08%	22.00%	0.02%	2.60%	0.00%
STAPLES INC	SPLS	0.14%	14.59%	0.02%	1.91%	0.00%
STARBUCKS CORP	SBUX	0.19%	12.16%	0.02%	1.14%	0.00%
STARWOOD HOTELS & RESORTS	HOT	0.08%	12.81%	0.01%	0.60%	0.00%
STATE STREET CORP	STT	0.18%	12.02%	0.02%	0.39%	0.00%
STERICYCLE INC	SRCL	0.06%	16.67%	0.01%	0.00%	0.00%
STRYKER CORP	SYK	0.21%	13.23%	0.03%	0.96%	0.00%
SUNOCO INC	SUN	0.04%	n/a	n/a	1.71%	0.00%
SUNTRUST BANKS INC	STI	0.12%	5.29%	0.01%	0.21%	0.00%
SUPERVALU INC	SVU	0.02%	n/a	n/a	3.93%	0.00%
SYMANTEC CORP	SYMC	0.12%	9.29%	0.01%	0.00%	0.00%
SYSCO CORP	SYY	0.18%	10.50%	0.02%	3.43%	0.01%
T ROWE PRICE GROUP INC	TROW	0.12%	7.83%	0.01%	2.36%	0.00%
TARGET CORP	TGT	0.38%	13.78%	0.05%	1.46%	0.01%
TECO ENERGY INC	TE	0.03%	7.25%	0.00%	5.38%	0.00%
TELLABS INC	TLAB	0.03%	10.33%	0.00%	1.23%	0.00%
TENET HEALTHCARE CORP	THC	0.02%	10.08%	0.00%	0.00%	0.00%
TERADATA CORP	TDC	0.05%	10.00%	0.01%	n/a	0.00%
TERADYNE INC	TER	0.02%	17.60%	0.00%	0.00%	0.00%
TESORO CORP	TSO	0.02%	16.85%	0.00%	0.16%	0.00%
TEXAS INSTRUMENTS INC	TXN	0.30%	10.60%	0.03%	2.02%	0.01%
TEXTRON INC	TXT	0.05%	35.51%	0.02%	0.48%	0.00%
THERMO FISHER SCIENTIFIC INC	TMO	0.21%	11.33%	0.02%	0.00%	0.00%
TIFFANY & CO	TIF	0.05%	12.72%	0.01%	2.25%	0.00%
TIME WARNER CABLE	TWC	0.19%	13.57%	0.03%	3.00%	0.01%
TIME WARNER INC	TWX	0.35%	13.33%	0.05%	2.92%	0.01%
TITANIUM METALS CORP	TIE	0.03%	12.50%	0.00%	0.56%	0.00%
TJX COMPANIES INC	TJX	0.18%	14.00%	0.02%	1.38%	0.00%
TORCHMARK CORP	TMK	0.04%	8.00%	0.00%	1.34%	0.00%
TOTAL SYSTEM SERVICES INC	TSS	0.03%	9.00%	0.00%	2.06%	0.00%
TRAVELERS COS INC/THE	TRV	0.25%	11.73%	0.03%	2.82%	0.01%
TYSON FOODS INC-CL A	TSN	0.05%	8.50%	0.00%	0.96%	0.00%

STANDARD AND POOR'S 500 INDEX

Name	Ticker	[7] Weight in Index	[8] Long-Term Growth Est.	[9] Cap-Weighted Long-Term Growth Est.	[10] Estimated Dividend Yield	[11] Cap-Weighted Dividend Yield
UNION PACIFIC CORP	UNP	0.37%	10.99%	0.04%	1.67%	0.01%
UNITED PARCEL SERVICE-CL B	UPS	0.43%	12.83%	0.05%	3.25%	0.01%
UNITED TECHNOLOGIES CORP	UTX	0.63%	10.93%	0.07%	2.55%	0.02%
UNITEDHEALTH GROUP INC	UNH	0.33%	10.43%	0.03%	0.04%	0.00%
UNUM GROUP	UNM	0.08%	7.00%	0.01%	1.70%	0.00%
URBAN OUTFITTERS INC	URBN	0.06%	20.38%	0.01%	0.00%	0.00%
US BANCORP	USB	0.45%	6.50%	0.03%	1.13%	0.01%
UNITED STATES STEEL CORP	X	0.06%	17.50%	0.01%	0.51%	0.00%
VALERO ENERGY CORP	VLO	0.11%	20.10%	0.02%	1.16%	0.00%
VARIAN MEDICAL SYSTEMS INC	VAR	0.07%	14.60%	0.01%	0.00%	0.00%
VENTAS INC	VTR	0.08%	4.94%	0.00%	4.48%	0.00%
VERISIGN INC	VRSN	0.05%	12.94%	0.01%	0.00%	0.00%
VERIZON COMMUNICATIONS INC	VZ	0.83%	3.70%	0.03%	6.77%	0.06%
VF CORP	VFC	0.08%	9.20%	0.01%	3.33%	0.00%
VIACOM INC-CLASS B	VIA/B	0.18%	12.95%	0.02%	0.00%	0.00%
VISA INC-CLASS A SHARES	V	0.37%	19.43%	0.07%	0.67%	0.00%
VORNADO REALTY TRUST	VNO	0.14%	9.36%	0.01%	3.48%	0.00%
VULCAN MATERIALS CO	VMC	0.06%	9.80%	0.01%	2.24%	0.00%
WAL-MART STORES INC	WMT	1.85%	10.88%	0.20%	2.48%	0.05%
WALGREEN CO	WAG	0.27%	14.44%	0.04%	2.06%	0.01%
WALT DISNEY CO/THE	DIS	0.65%	10.30%	0.07%	1.13%	0.01%
WASHINGTON POST-CLASS B	WPO	0.03%	n/a	n/a	n/a	0.00%
WASTE MANAGEMENT INC	WM	0.16%	12.00%	0.02%	3.93%	0.01%
WATERS CORP	WAT	0.06%	13.83%	0.01%	0.00%	0.00%
WATSON PHARMACEUTICALS INC	WPI	0.05%	9.59%	0.01%	0.00%	0.00%
WELLPOINT INC	WLP	0.22%	10.24%	0.02%	0.00%	0.00%
WELLS FARGO & CO	WFC	1.39%	5.32%	0.07%	0.79%	0.01%
WESTERN DIGITAL CORP	WDC	0.07%	7.50%	0.01%	0.00%	0.00%
WESTERN UNION CO	WU	0.10%	12.23%	0.01%	1.57%	0.00%
WEYERHAEUSER CO	WY	0.08%	5.50%	0.00%	0.76%	0.00%
WHIRLPOOL CORP	WHR	0.07%	15.00%	0.01%	1.92%	0.00%
WHOLE FOODS MARKET INC	WFMI	0.06%	14.77%	0.01%	0.00%	0.00%
WILLIAMS COS INC	WMB	0.11%	15.63%	0.02%	2.58%	0.00%
WINDSTREAM CORP	WIN	0.05%	n/a	n/a	9.32%	0.00%
WISCONSIN ENERGY CORP	WEC	0.06%	8.33%	0.01%	3.10%	0.00%
WW GRAINGER INC	GWW	0.08%	13.30%	0.01%	1.98%	0.00%
WYNDHAM WORLDWIDE CORP	WYN	0.04%	n/a	n/a	2.32%	0.00%
WYNN RESORTS LTD	WYNN	0.10%	17.72%	0.02%	0.57%	0.00%
XCEL ENERGY INC	XEL	0.10%	6.10%	0.01%	4.85%	0.00%
XEROX CORP	XRX	0.11%	n/a	n/a	2.19%	0.00%
XILINX INC	XLNX	0.07%	14.00%	0.01%	2.50%	0.00%
XL CAPITAL LTD -CLASS A	XL	0.06%	n/a	n/a	2.53%	0.00%
XTO ENERGY INC	XTO	0.25%	n/a	n/a	1.03%	0.00%
YAHOO! INC	YHOO	0.20%	14.21%	0.03%	0.00%	0.00%
YUM! BRANDS INC	YUM	0.19%	12.03%	0.02%	2.25%	0.00%
ZIMMER HOLDINGS INC	ZMH	0.11%	11.03%	0.01%	0.00%	0.00%
ZIONS BANCORPORATION	ZION	0.04%	7.43%	0.00%	0.21%	0.00%

Notes:
[1] Equals sum of Col. [11]
[2] Equals sum of Col. [9]
[3] Equals ([1] x (1 + (0.5 x [2]))) + [2]
[4] Source: Bloomberg
[5] Equals [3] − [4]
[6] Equals sum of Col. [7] if Col. [8] ≠ n/a
[7] Equals weight in S&P 500 based on market capitalization
[8] Source: Bloomberg
[9] Equals Col. [7] x Col. [8] if Col. [8] ≠ n/a, otherwise equals zero
[10] Source: Bloomberg
[11] Equals Col. [7] x Col. [10] if Col. [8] ≠ n/a, otherwise equals zero

Quarter	[1] Average Authorized Gas ROE	[2] U.S. Govt. 30-year Treasury	[3] Risk Premium
1992.1	12.38%	7.84%	4.55%
1992.2	11.83%	7.88%	3.94%
1992.3	12.03%	7.42%	4.62%
1992.4	12.14%	7.54%	4.60%
1993.1	11.84%	7.01%	4.83%
1993.2	11.64%	6.86%	4.78%
1993.3	11.15%	6.23%	4.92%
1993.4	11.04%	6.21%	4.84%
1994.1	11.07%	6.66%	4.40%
1994.2	11.13%	7.45%	3.68%
1994.3	12.75%	7.55%	5.20%
1994.4	11.24%	7.95%	3.29%
1995.1	11.96%	7.52%	4.44%
1995.2	11.32%	6.87%	4.45%
1995.3	11.37%	6.66%	4.71%
1995.4	11.58%	6.14%	5.45%
1996.1	11.46%	6.39%	5.07%
1996.2	11.46%	6.92%	4.54%
1996.3	10.70%	7.00%	3.70%
1996.4	11.56%	6.54%	5.02%
1997.1	11.08%	6.90%	4.18%
1997.2	11.62%	6.88%	4.73%
1997.3	12.00%	6.44%	5.56%
1997.4	11.06%	6.04%	5.02%
1998.1	11.31%	5.89%	5.43%
1998.2	12.20%	5.79%	6.41%
1998.3	11.65%	5.32%	6.33%
1998.4	12.30%	5.11%	7.20%
1999.1	10.40%	5.43%	4.97%
1999.2	10.94%	5.82%	5.12%
1999.3	10.75%	6.07%	4.68%
1999.4	11.10%	6.31%	4.79%
2000.1	11.08%	6.15%	4.93%
2000.2	11.00%	5.95%	5.05%
2000.3	11.68%	5.78%	5.90%
2000.4	12.50%	5.62%	6.88%
2001.1	11.38%	5.42%	5.96%
2001.2	10.88%	5.77%	5.11%
2001.3	10.78%	5.44%	5.34%
2001.4	11.57%	5.21%	6.36%
2002.1	10.05%	5.55%	4.50%
2002.2	11.41%	5.57%	5.83%
2002.3	11.25%	4.96%	6.29%
2002.4	11.57%	4.93%	6.63%
2003.1	11.43%	4.78%	6.65%
2003.2	11.16%	4.57%	6.60%
2003.3	9.88%	5.15%	4.72%
2003.4	11.09%	5.11%	5.98%
2004.1	11.00%	4.86%	6.14%
2004.2	10.64%	5.31%	5.33%
2004.3	10.75%	5.01%	5.74%
2004.4	10.91%	4.87%	6.04%
2005.1	10.55%	4.69%	5.86%
2005.2	10.13%	4.34%	5.78%
2005.3	10.85%	4.43%	6.41%
2005.4	10.59%	4.66%	5.93%
2006.1	10.38%	4.69%	5.69%
2006.2	10.63%	5.19%	5.43%
2006.3	10.06%	4.90%	5.16%
2006.4	10.37%	4.70%	5.68%
2007.1	10.39%	4.81%	5.58%
2007.2	10.27%	4.98%	5.28%
2007.3	10.02%	4.85%	5.16%
2007.4	10.39%	4.53%	5.86%
2008.1	10.15%	4.34%	5.81%
2008.2	10.54%	4.57%	5.97%
2008.3	10.38%	4.44%	5.95%
2008.4	10.36%	3.49%	6.87%
2009.1	10.53%	3.62%	6.91%
2009.2	10.50%	4.23%	6.27%
2009.3	10.46%	4.18%	6.28%
2009.4	10.54%	4.35%	6.19%
2010.1	10.45%	4.59%	5.86%
2010.2	10.12%	4.20%	5.92%
AVERAGE	11.06%	5.64%	5.42%
MEDIAN	11.06%	5.43%	5.43%



SUMMARY OUTPUT

	Coefficients
Intercept	-0.044
U.S. Govt. 30-year Treasury	-0.034

	[6] *Risk-Free Rate*	[7] *Risk Premium*	[8] *ROE*
Current 30-year Treasury Bond Yield (30-day average) [4]	4.13%	6.43%	10.57%
Blue Chip Consensus Forecast (April 2010 - September 2011) [5]	4.78%	5.94%	10.72%
MEAN		6.18%	10.64%

Notes:
[1] Source: Regulatory Research Associates, *Rate Case Statistics* , accessed June 30, 2010
[2] Source: Bloomberg Professional; average of last trading day of each month in a quarter
[3] Equals Col. [1] – Col. [2]
[4] Source: Bloomberg Professional
[5] Blue Chip Financial Forecasts, Vol. 29, No. 6, June 1, 2010, at 2.
[6] *see Notes [4] & [5]*
[7] Equals -0.044 + (-0.034 x ln(Col. [6]))
[8] Equals Col. [6] + Col. [7]

PROXY GROUP MEDIAN MARKET CAPITALIZATION

Company Name	Ticker	Customers (Mil) [1]	Market Cap ($Bil) [2]	Market to Book Ratio [2]
American Electric Power Company, Inc.	AEP	5.2	$ 15.47	1.16
Cleco Corporation	CNL	0.3	$ 1.60	1.27
Empire District Electric Company	EDE	0.2	$ 0.75	1.20
IDACORP, Inc.	IDA	0.5	$ 1.60	1.14
Northeast Utilities	NU	2.1	$ 4.48	1.24
Pinnacle West Capital Corporation	PNW	1.1	$ 3.94	1.23
Portland General Electric Company	POR	0.8	$ 1.38	0.89
Westar Energy, Inc.	WR	0.7	$ 2.39	1.05
MEAN		1.4	$ 3.95	1.15
MEDIAN		0.8	$ 2.00	1.18

SIZE PREMIUM CALCULATION

OTP Equity ($ millions)	$ 328.11	[3]
Median Market to Book for Comp Group	1.18	
OTP Implied Market Cap ($ millions)	$ 387.06	

Market Capitalization ($ millions)

Decile	Low	High	Size Premium [4]
2	$ 5,975.836	$ 14,691.668	0.74%
3	$ 3,428.570	$ 5,936.147	0.85%
4	$ 2,386.985	$ 3,414.634	1.15%
5	$ 1,602.429	$ 2,384.026	1.69%
6	$ 1,063.333	$ 1,600.169	1.73%
7	$ 685.129	$ 1,063.308	1.73%
8	$ 432.175	$ 684.790	2.49%
9	$ 214.194	$ 431.256	2.85%
10	$ 1.007	$ 214.111	6.28%

Proxy Group Minimum	$ 753.47	1.73%	
OTP Implied Market Capitalization	$ 387.06	2.85%	
Difference from Proxy Group Minimum		1.12%	[5]

Notes
[1] Source: SEC Form 10-Ks, December 31, 2009. Includes electric and gas customers.
[2] Bloomberg, as of June 30, 2010
[3] Exhibit_(KGM-1), Schedule 2 to Direct Testimony of Kevin G. Moug.
[4] Source: 2010 Morningstar Risk Premia Over Time Report; Estimates for 1926 - 2009
[5] Equals 2.85%-1.73%

Company Name	Ticker	EQUITY RATIO [1] 2010 Q1	2009 Q4	2009 Q3	2009 Q2	2009 Q1	2008 Q4	2008 Q3	2008 Q2	AVERAGE
American Electric Power Company, Inc.	AEP	52.51%	48.47%	49.05%	48.94%	47.82%	48.64%	48.37%	47.97%	48.97%
Cleco Corporation	CNL	50.69%	45.45%	47.08%	46.43%	46.66%	45.07%	47.49%	46.53%	46.93%
Empire District Electric Company	EDE	51.88%	50.80%	48.49%	46.88%	46.78%	50.12%	50.63%	51.26%	49.60%
IDACORP, Inc.	IDA	47.56%	47.45%	48.15%	46.98%	46.70%	48.49%	47.84%	49.62%	47.85%
Northeast Utilities	NU	48.82%	49.14%	50.44%	49.94%	48.90%	49.39%	49.19%	48.46%	49.29%
Pinnacle West Capital Corporation	PNW	49.78%	50.37%	50.74%	48.18%	48.86%	53.81%	54.81%	55.34%	51.49%
Portland General Electric Company	POR	46.47%	46.94%	49.37%	49.17%	51.68%	50.90%	50.89%	50.92%	49.54%
Westar Energy, Inc.	WR	58.41%	58.73%	58.86%	57.04%	61.44%	61.37%	63.77%	63.17%	60.35%
AVERAGE										**50.50%**

Company Name	Ticker	EQUITY RATIO [1] 2010 Q1	2009 Q4	2009 Q3	2009 Q2	2009 Q1	2008 Q4	2008 Q3	2008 Q2	AVERAGE
AEP Texas Central Company	AEP	43.89%	43.79%	43.67%	46.13%	43.98%	43.68%	42.41%	41.79%	43.67%
AEP Texas North Company	AEP	45.73%	45.58%	46.63%	46.51%	46.72%	46.72%	47.29%	47.16%	46.54%
Appalachian Power Company	AEP	45.05%	44.35%	44.82%	44.58%	40.87%	42.81%	43.34%	42.78%	43.58%
Arizona Public Service Company	PNW	49.78%	50.37%	50.74%	48.18%	48.86%	53.81%	54.81%	55.34%	51.49%
Cleco Power LLC	CNL	50.69%	45.45%	47.08%	46.43%	46.66%	45.07%	47.49%	46.53%	46.93%
Columbus Southern Power Company	AEP	46.48%	46.95%	46.18%	46.81%	46.39%	46.40%	47.26%	45.93%	46.55%
Connecticut Light and Power Company	NU	51.18%	51.07%	50.43%	49.82%	49.07%	51.25%	49.44%	48.08%	50.04%
Empire District Electric Company	EDE	51.88%	50.80%	48.49%	46.88%	46.78%	50.12%	50.63%	51.26%	49.60%
Idaho Power Co.	IDA	47.56%	47.45%	48.15%	46.98%	46.70%	48.49%	47.84%	49.62%	47.85%
Indiana Michigan Power Company	AEP	46.44%	45.85%	45.74%	45.30%	43.06%	51.04%	50.95%	50.34%	47.34%
Kansas Gas and Electric Company	WR	56.24%	57.15%	57.23%	56.43%	65.33%	65.35%	65.25%	64.72%	60.96%
Kentucky Power Company	AEP	44.27%	44.04%	44.00%	43.94%	48.92%	48.74%	47.70%	47.17%	46.10%
Kingsport Power Company	AEP	100.00%	51.61%	55.30%	54.84%	55.05%	55.59%	55.66%	56.38%	60.55%
Ohio Power Company	AEP	49.41%	49.94%	50.14%	53.32%	48.00%	47.24%	48.80%	50.57%	49.68%
Portland General Electric Company	POR	46.47%	46.94%	49.37%	49.17%	51.68%	50.90%	50.89%	50.92%	49.54%
Public Service Company of New Hampshire	NU	47.42%	46.52%	51.26%	50.98%	48.85%	47.99%	46.65%	45.96%	48.20%
Public Service Company of Oklahoma	AEP	45.33%	45.61%	48.55%	47.44%	44.85%	45.82%	45.51%	44.57%	45.96%
Southwestern Electric Power Company	AEP	47.41%	51.71%	51.52%	48.17%	47.30%	46.74%	42.57%	41.53%	47.12%
Westar Energy (KPL)	WR	60.58%	60.31%	60.48%	57.65%	57.55%	57.38%	62.29%	61.63%	59.73%
Western Massachusetts Electric Company	NU	47.86%	49.84%	49.62%	49.01%	48.78%	48.93%	51.49%	51.34%	49.61%
Wheeling Power Co	AEP	63.54%	63.72%	62.98%	61.25%	60.92%	60.29%	60.62%	59.50%	61.60%

Notes:
Source: SNL Financial, FERC Form 3-Q
[1] Equals 'Total Proprietary Capital' less 'Preferred Stock Issued'
[2] Equals 'Total Long-Term Debt'

Company Name	Ticker	LONG-TERM DEBT RATIO [2] 2010 Q1	2009 Q4	2009 Q3	2009 Q2	2009 Q1	2008 Q4	2008 Q3	2008 Q2	AVERAGE
American Electric Power Company, Inc.	AEP	47.49%	51.53%	50.95%	51.06%	52.18%	51.36%	51.63%	52.03%	51.03%
Cleco Corporation	CNL	49.31%	54.55%	52.92%	53.57%	53.34%	54.93%	52.51%	53.47%	53.07%
Empire District Electric Company	EDE	48.12%	49.20%	51.51%	53.12%	53.22%	49.88%	49.37%	48.74%	50.40%
IDACORP, Inc.	IDA	52.44%	52.55%	51.85%	53.02%	53.30%	51.51%	52.16%	50.38%	52.15%
Northeast Utilities	NU	51.18%	50.86%	49.56%	50.06%	51.10%	50.61%	50.81%	51.54%	50.71%
Pinnacle West Capital Corporation	PNW	50.22%	49.63%	49.26%	51.82%	51.14%	46.19%	45.19%	44.66%	48.51%
Portland General Electric Company	POR	53.53%	53.06%	50.63%	50.83%	48.32%	49.10%	49.11%	49.08%	50.46%
Westar Energy, Inc.	WR	41.59%	41.27%	41.14%	42.96%	38.56%	38.63%	36.23%	36.83%	39.65%
AVERAGE										**49.50%**

Company Name	Ticker	LONG-TERM DEBT RATIO [2] 2010 Q1	2009 Q4	2009 Q3	2009 Q2	2009 Q1	2008 Q4	2008 Q3	2008 Q2	AVERAGE
AEP Texas Central Company	AEP	56.11%	56.21%	56.33%	53.87%	56.02%	56.32%	57.59%	58.21%	56.33%
AEP Texas North Company	AEP	54.27%	54.42%	53.37%	53.49%	53.28%	53.28%	52.71%	52.84%	53.46%
Appalachian Power Company	AEP	54.95%	55.65%	55.18%	55.42%	59.13%	57.19%	56.66%	57.22%	56.42%
Arizona Public Service Company	PNW	50.22%	49.63%	49.26%	51.82%	51.14%	46.19%	45.19%	44.66%	48.51%
Cleco Power LLC	CNL	49.31%	54.55%	52.92%	53.57%	53.34%	54.93%	52.51%	53.47%	53.07%
Columbus Southern Power Company	AEP	53.52%	53.05%	53.82%	53.19%	53.61%	53.60%	52.74%	54.07%	53.45%
Connecticut Light and Power Company	NU	48.82%	48.93%	49.57%	50.18%	50.93%	48.75%	50.56%	51.92%	49.96%
Empire District Electric Company	EDE	48.12%	49.20%	51.51%	53.12%	53.22%	49.88%	49.37%	48.74%	50.40%
Idaho Power Co.	IDA	52.44%	52.55%	51.85%	53.02%	53.30%	51.51%	52.16%	50.38%	52.15%
Indiana Michigan Power Company	AEP	53.56%	54.15%	54.26%	54.70%	56.94%	48.96%	49.05%	49.66%	52.66%
Kansas Gas and Electric Company	WR	43.76%	42.85%	42.77%	43.57%	34.67%	34.65%	34.75%	35.28%	39.04%
Kentucky Power Company	AEP	55.73%	55.96%	56.00%	56.06%	51.08%	51.26%	52.30%	52.83%	53.90%
Kingsport Power Company	AEP	0.00%	48.39%	44.70%	45.16%	44.95%	44.41%	44.34%	43.62%	39.45%
Ohio Power Company	AEP	50.59%	50.06%	49.86%	46.68%	52.00%	52.76%	51.20%	49.43%	50.32%
Portland General Electric Company	POR	53.53%	53.06%	50.63%	50.83%	48.32%	49.10%	49.11%	49.08%	50.46%
Public Service Company of New Hampshire	NU	52.58%	53.48%	48.74%	49.02%	51.15%	52.01%	53.35%	54.04%	51.80%
Public Service Company of Oklahoma	AEP	54.67%	54.39%	51.45%	52.56%	55.15%	54.18%	54.49%	55.43%	54.04%
Southwestern Electric Power Company	AEP	52.59%	48.29%	48.48%	51.83%	52.70%	53.26%	57.43%	58.47%	52.88%
Westar Energy (KPL)	WR	39.42%	39.69%	39.52%	42.35%	42.45%	42.62%	37.71%	38.37%	40.27%
Western Massachusetts Electric Company	NU	52.14%	50.16%	50.38%	50.99%	51.22%	51.07%	48.51%	48.66%	50.39%
Wheeling Power Co	AEP	36.46%	36.28%	37.02%	38.75%	39.08%	39.71%	39.38%	40.50%	38.40%

Notes:
Source: SNL Financial, FERC Form 3-Q
[1] Equals 'Total Proprietary Capital' less 'Preferred Stock Issued'
[2] Equals 'Total Long-Term Debt'