

FLOTATION COST ADJUSTMENT

Flotation Costs from Inception to Date

Date	Shares Issued	Market Price	Offering Price	Underwriting Discount	Offering Expense	Net Proceeds	Total Flotation Costs	Gross Equity Issue before Costs	Net Proceeds	Flotation Cost Percentage
11/16/1949	1,584,238	\$10.750	\$10.250	\$0.124	\$0.137	\$9,989	\$1,205,605	\$17,030,559	\$15,824,953	7.079%
6/4/1952	1,108,966	\$10.500	\$10.500	\$0.098	\$0.162	\$10,240	\$288,331	\$11,644,143	\$11,355,812	2.476%
4/14/1954	1,219,856	\$15.250	\$14.000	\$0.060	\$0.124	\$13,816	\$1,749,274	\$18,602,804	\$16,853,530	9.403%
2/29/1956	670,920	\$17.825	\$16.750	\$0.050	\$0.221	\$16,479	\$903,058	\$11,959,149	\$11,056,091	7.551%
7/22/1959	952,033	\$23.375	\$22.000	\$0.069	\$0.191	\$21,740	\$1,556,574	\$22,253,771	\$20,697,197	6.995%
7/28/1965	772,008	\$35.250	\$33.000	\$0.092	\$0.225	\$32,683	\$1,981,745	\$27,213,282	\$25,231,537	7.282%
1/22/1969	1,080,811	\$29.000	\$27.000	\$0.119	\$0.187	\$26,694	\$2,492,350	\$31,343,519	\$28,851,169	7.952%
10/21/1970	1,729,298	\$23.125	\$21.500	\$0.175	\$0.149	\$21,176	\$3,370,402	\$39,990,016	\$36,619,614	8.428%
7/26/1972	1,902,228	\$25.000	\$23.500	\$0.129	\$0.166	\$23,205	\$3,414,499	\$47,555,700	\$44,141,201	7.180%
10/10/1973	2,092,451	\$25.825	\$24.500	\$0.128	\$0.153	\$24,219	\$3,360,476	\$54,037,547	\$50,677,071	6.219%
11/20/1974	2,300,000	\$17.625	\$17.500	\$0.910	\$0.069	\$16,521	\$2,539,200	\$40,537,500	\$37,998,300	6.264%
8/14/1975	1,750,000	\$23.000	\$23.000	\$0.740	\$0.077	\$22,183	\$1,429,750	\$40,250,000	\$38,820,250	3.552%
6/3/1976	2,000,000	\$24.000	\$24.000	\$0.720	\$0.064	\$23,216	\$1,568,000	\$48,000,000	\$46,432,000	3.267%
5/31/1993	3,041,955	\$44.125	\$43.625	\$1.200	\$0.048	\$42,377	\$5,317,337	\$134,226,264	\$128,908,927	3.961%
9/23/1997	4,500,000	\$49.938	\$49.563	\$1.230	\$0.133	\$48,200	\$7,821,000	\$224,721,000	\$216,900,000	3.480%
9/29/1997	400,000	\$50.500	\$49.563	\$1.230	\$0.133	\$48,200	\$920,000	\$20,200,000	\$19,280,000	4.554%
2/25/2002	20,000,000	\$22.950	\$22.500	\$0.730	\$0.015	\$21,755	\$23,900,000	\$459,000,000	\$435,100,000	5.207%
9/9/2008	17,250,000	\$20.860	\$20.200	\$0.100	\$0.006	\$20,094	\$13,218,352	\$359,835,000	\$346,616,648	3.673%
8/3/2010	21,850,000	\$22.100	\$21.500	\$0.645	\$0.013	\$20,571	\$33,407,927	\$482,885,000	\$449,477,073	6.918%
3/5/2013	7,757,449	\$29.057	\$29.057	\$0.291	\$0.052	\$28,714	\$2,660,805	\$225,408,196	\$222,747,391	1.180%
Flotation Cost Adjustment							\$113,104,685	\$2,316,693,450	\$2,203,588,765	4.882%

The flotation adjustment is derived by dividing the dividend yield by 1-F (where F = flotation costs expressed in percentage terms), or by 0.9512, 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 accommodate an adjustment for flotation costs:

$$k = \frac{D \times (1 + 5g)}{P \times (1 - F)} + g$$

Source: Company data.

[1] This issuance was structured as a forward equity sale. The spread between the initial forward sale price (i.e., \$20.855) and the actual forward settle price (i.e., \$20.584) is reflected in the net proceeds.

FLOTATION COST ADJUSTMENT

		[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]
		Stock Price	Annualized Dividend	Dividend Yield	Expected Dividend Yield	Expected Dividend Yield Adjusted for Flotation Costs	Value Line EPS Growth	First Call EPS Growth	Zacks EPS Growth	Average Growth Estimate	DCF k(e)	Flotation Adjusted DCF k(e)
ALLETE, Inc.	ALE	\$ 1.96	\$ 50.98	3.84%	3.96%	4.16%	6.00%	6.00%	6.00%	6.00%	9.96%	10.16%
American Electric Power Company, Inc.	AEP	\$ 2.00	\$ 49.74	4.02%	4.11%	4.32%	4.23%	4.30%	4.34%	4.29%	8.40%	8.61%
Cleco Corporation	CNL	\$ 1.45	\$ 49.53	2.93%	3.03%	3.18%	8.00%	8.00%	6.83%	7.61%	10.64%	10.79%
Duke Energy Corporation	DUK	\$ 3.12	\$ 70.37	4.43%	4.52%	4.75%	3.92%	3.90%	3.94%	3.92%	8.44%	8.67%
Empire District Electric Company	EDE	\$ 1.02	\$ 23.83	4.28%	4.35%	4.57%	3.00%	3.00%	3.33%	3.11%	7.46%	7.69%
Great Plains Energy Inc.	GXP	\$ 0.92	\$ 26.23	3.51%	3.60%	3.79%	5.17%	5.20%	5.46%	5.28%	8.88%	9.06%
Hawaiian Electric Industries, Inc.	HE	\$ 1.24	\$ 25.16	4.93%	5.04%	5.30%	4.20%	6.00%	4.57%	4.92%	9.96%	10.22%
NextEra Energy, Inc.	NEE	\$ 2.90	\$ 92.74	3.13%	3.22%	3.38%	6.48%	6.10%	5.69%	6.09%	9.31%	9.47%
Otter Tail Corporation	OTTR	\$ 1.21	\$ 30.58	3.96%	4.16%	4.38%	6.00%	NA	10.50%	8.25%	12.41%	12.63%
Pinnacle West Capital Corporation	PNW	\$ 2.27	\$ 54.64	4.15%	4.24%	4.46%	4.13%	4.60%	4.24%	4.32%	8.57%	8.78%
PNM Resources, Inc.	PNM	\$ 0.74	\$ 26.25	2.82%	2.95%	3.10%	8.20%	7.60%	9.27%	8.36%	11.31%	11.46%
Portland General Electric Company	POR	\$ 1.10	\$ 31.85	3.45%	3.58%	3.76%	10.89%	6.60%	7.00%	8.16%	11.74%	11.92%
Southern Company	SO	\$ 2.03	\$ 42.68	4.76%	4.85%	5.09%	3.55%	4.10%	3.72%	3.79%	8.63%	8.88%
Westar Energy, Inc.	WR	\$ 1.40	\$ 34.47	4.06%	4.15%	4.36%	2.80%	4.30%	4.37%	3.82%	7.97%	8.19%
		PROXY GROUP MEAN		3.88%	3.98%	4.19%	5.47%	5.36%	5.66%	5.57%	9.55%	9.75%
MEAN												9.75%
UNADJUSTED CONSTANT GROWTH DCF MEAN												9.55%
DIFFERENCE (FLOTATION COST ADJUSTMENT)												[12] 0.20%

[1] Source: Bloomberg, 30 day average price
 [2] Source: Bloomberg
 [3] Equals Col. [1] / Col. [2]
 [4] Equals Col. [3] x [1+ (.5 x Col. [9])]
 [5] Equals [Expected Dividend Yield] / [1- Flotation Cost Percentage]
 [6] Source: Value Line
 [7] Source: First Call
 [8] Source: Zacks
 [9] Average of columns [6], [7], [8]
 [10] = Column [4] + Column [9]
 [11] = Column [5] + Column [9]
 [12] = Col. [11] - Col. [10]