

Direct Testimony and Schedules
Robert B. Hevert

Before the South Dakota Public Utilities Commission
State of South Dakota

In the Matter of the Application of Northern States Power Company,
a Minnesota corporation
for Authority to Increase Rates for Electric Service in South Dakota

Docket No. EL09-____
Exhibit____(RBH-1)

**Rate of Return and
Return on Equity**

June 30, 2009

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1 **I. INTRODUCTION AND QUALIFICATIONS**

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

5
6 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT POSITION?

7 A. I am employed by Concentric Energy Advisors (“Concentric”) as its
8 President.

9
10 Q. ON WHOSE BEHALF ARE YOU SUBMITTING THIS TESTIMONY?

11 A. I am submitting this testimony on behalf of the South Dakota division of
12 Northern States Power Company, a Minnesota corporation operating in
13 South Dakota (“Xcel Energy” or the “Company”).

14
15 Q. ARE YOU SPONSORING ANY REQUIRED FILING STATEMENTS?

16 A. Yes. I am sponsoring Exhibit No.____ (NSP-1), Statement G, in Volume 1.

17
18 Q. PLEASE BRIEFLY OUTLINE YOUR RESPONSIBILITIES AS PRESIDENT OF
19 CONCENTRIC.

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

25

1 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

2 A. I hold a Bachelors of Science degree in Finance from the University of
3 Delaware, and Masters degree in Business Administration with a
4 concentration in Finance from the University of Massachusetts. In addition,
5 I hold the Chartered Financial Analyst designation.

6
7 Q. PLEASE DESCRIBE YOUR EXPERIENCE IN THE ENERGY AND UTILITY
8 INDUSTRIES.

9 A. I have served as an executive and manager with other consulting firms
10 (REED Consulting Group and Navigant Consulting, Inc.), and as a financial
11 officer of Bay State Gas Company. I have provided expert testimony
12 regarding strategic and financial matters, including the cost of capital, before
13 several state utility regulatory agencies as well as the Federal Energy
14 Regulatory Commission. I have also advised numerous energy and utility
15 clients on a wide range of financial and economic issues including both asset
16 and corporate-based transactions. Many of those assignments have included
17 the determination of the cost of capital for valuation purposes. I have
18 included my resume as Exhibit __ (RBH-1), Schedule 1 and a summary of
19 testimony that I have filed in other proceedings as Exhibit __ (RBH-1),
20 Schedule 2.

21
22 Q. PLEASE DESCRIBE CONCENTRIC'S ACTIVITIES IN ENERGY AND UTILITY
23 ENGAGEMENTS.

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

1 regulatory advisory services; energy market assessments; market entry and
2 exit analysis; corporate and business unit strategy development; and energy
3 contract negotiations. Our financial advisory activities include merger,
4 acquisition and divestiture assignments; due diligence and valuation
5 assignments; project and corporate finance services; and transaction support
6 services. In addition, we provide litigation support services on a wide range
7 of financial economic issues for clients throughout North America.
8

9 **II. PURPOSE AND OVERVIEW OF TESTIMONY**

10 Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

11 A. The purpose of my Direct Testimony is to present evidence and provide a
12 recommendation regarding the Company's authorized Return on Equity
13 ("ROE"), and to present and provide an assessment of the overall Rate of
14 Return ("ROR"), including the capital structure and the Company's cost of
15 debt to be used for ratemaking purposes. My analysis and conclusions are
16 supported by the data presented in Exhibit __ (RBH-1), Schedules 3 through
17 9, which have been prepared by me or under my direction in connection
18 with my Direct Testimony.
19

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

22 A. Based on the analyses I have performed in this proceeding, I recommend
23 that the South Dakota Public Utilities Commission (the "Commission")
24 authorize Xcel Energy the opportunity to earn an ROE of 11.50 percent. As
25 described in greater detail later in my testimony, that recommendation is
26 based on the use of several well-accepted methodologies. As discussed in

1 the Direct Testimony of Ms. Judy Poferl, the Company has proposed an
2 ROE of 11.25 percent in this proceeding. For the reasons discussed
3 throughout the balance of my testimony, I believe that request is reasonable,
4 though very conservative. I also have concluded that the Company's
5 proposed overall ROR of 9.02%, including a capital structure consisting of
6 51.63 percent common equity, 48.37 percent long-term debt, and a 6.64
7 percent cost of long-term debt, is reasonable.

8
9 Q. PLEASE PROVIDE A BRIEF OVERVIEW OF THE ANALYSIS THAT LED TO YOUR
10 CONCLUSIONS.

11 A. In order to develop my ROE recommendation, I applied the Constant
12 Growth Discounted Cash Flow ("DCF") model, the Capital Asset Pricing
13 Model ("CAPM"), and the Risk Premium approach. As discussed later in
14 my testimony, however, current market conditions are such that certain of
15 those approaches, most notably the CAPM, require adjustment to reflect the
16 very substantial differences between historic market conditions and current
17 market conditions.

18
19 In addition to the analyses discussed above, I considered the risks associated
20 with the Company's relatively small size, and the flotation costs associated
21 with equity issuances, although I did not include any explicit adjustments to
22 my ROE estimates for those factors.

23
24 Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?

25 A. The remainder of my Direct Testimony is organized into seven sections;
26 Section III discusses the regulatory guidelines and financial considerations

1 pertinent to the development of the cost of capital; Section IV discusses the
2 current capital market conditions and the effect of those conditions on the
3 Company’s cost of equity; Section V explains my selection of a proxy group
4 of integrated electric utilities; Section VI explains my analysis and the
5 analytical basis for the recommendation of the appropriate ROE for Xcel
6 Energy; Section VII provides a discussion of specific business risk factors
7 that have a direct bearing on the ROE to be authorized for the Company in
8 this proceeding; Section VIII provides a discussion of the analysis that
9 supports my recommended capital structure and the Company’s proposed
10 cost of long-term debt; and Section IX summarizes my conclusions and
11 recommendations.

12
13 **III. REGULATORY GUIDELINES AND FINANCIAL**
14 **CONSIDERATIONS**

15 Q. PLEASE DESCRIBE THE GUIDING PRINCIPLES TO BE USED IN ESTABLISHING
16 THE ROE FOR A REGULATED UTILITY.

17 A. The United States Supreme Court’s precedent-setting *Hope* and *Bluefield* cases
18 established the standards for determining the fairness or reasonableness of a
19 utility’s authorized ROE. Among the standards established by the Court in
20 those cases are: (1) consistency with other businesses having similar or
21 comparable risks; (2) adequacy of the return to support credit quality and
22 access to capital; and (3) that the means of arriving at a fair return are not

1 important, only that the end result leads to just and reasonable rates.¹

2
3 Q. WHY IS IT IMPORTANT FOR A UTILITY TO BE ALLOWED THE OPPORTUNITY TO
4 EARN A RETURN ADEQUATE TO ATTRACT EQUITY CAPITAL AT REASONABLE
5 TERMS?

6 A. A return that is adequate to attract capital at reasonable terms enables the
7 Company to provide safe, reliable service while maintaining its financial
8 integrity. That return should be commensurate with the returns expected
9 elsewhere in the market for investments of equivalent risk. The
10 consequence of the Commission's order in this case, therefore, should be
11 rates that provide the Company with the opportunity to earn an ROE that is:
12 (1) adequate to attract capital at reasonable terms, thereby enabling the
13 Company to continue to provide safe, reliable service; (2) sufficient to ensure
14 its financial integrity; and (3) commensurate with returns on investments in
15 enterprises having corresponding risks.

16
17 While the capital attraction and financial integrity standards are important
18 principles in normal economic conditions, the practical implications of those
19 standards are even more pronounced when, as discussed in more detail
20 below and in the Direct Testimony of Ms. Judy M. Pofert, the Company is
21 making very substantial capital investments in a challenging financial
22 environment. As discussed in more detail in Section IV, constrained capital
23 availability, increased debt costs, and volatile equity valuations have

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).

1 intensified the focus on financing strategies and the importance of
2 maintaining a strong financial profile. Consequently, the Commission's
3 order in this proceeding will have a particular consequence as it relates to the
4 capital attraction and financial integrity standards.

5
6 Q. HOW DOES THE REGULATORY ENVIRONMENT IN WHICH A UTILITY OPERATES
7 AFFECT ITS ACCESS TO AND COST OF CAPITAL?

8 A. Commission decisions or policy changes can profoundly affect the financial
9 performance of a utility. There is little question that rating agencies consider
10 the regulatory environment, including the extent to which the presiding
11 regulatory commission is supportive of issues addressing credit quality, to be
12 an important determinant of the subject credit profile. As noted by Standard
13 & Poor's ("S&P"):

14 Indeed, Standard & Poor's views the regulatory and
15 political environment in which a utility operates as one of
16 the most significant factors in assessing the
17 creditworthiness of regulated utilities. Frequently, rate
18 decisions pending before state commissions, or the
19 evolving dynamics of a specific political situation, are of
20 such consequence to a particular utility that the financial
21 markets expect regular updates from us to clarify how these
22 developments ultimately will affect the utility's
23 creditworthiness.²

24 According to S&P, in order for a regulatory scheme to be considered
25 supportive of credit quality, the presiding commission must limit uncertainty
26 in the recovery of a return on the utility's investment. Commissions must

² Standard & Poor's, *Criteria: Influence of Regulatory and Policy Decisions on Utility Credit Quality*

1 also eliminate, or at least greatly reduce, the issue of rate-case lag, especially
2 when a utility engages in a sizable capital expenditure program.³

3
4 Q. WHAT ARE YOUR CONCLUSIONS REGARDING REGULATORY GUIDELINES AND
5 CAPITAL MARKET EXPECTATIONS?

6 A. The Company's ability to fund capital investments will be dependent on its
7 ability to access external capital on reasonable terms. Consequently, it is
8 important for the ROE authorized in this proceeding to take into
9 consideration the extremely challenging capital market conditions with which
10 the Company must contend, the Company's substantial capital investment
11 plans, and investors' expectations relative to both risks and returns.

12
13 **IV. CURRENT CAPITAL MARKET ENVIRONMENT**

14 Q. HOW DO ECONOMIC CONDITIONS INFLUENCE THE COST OF CAPITAL AND
15 COST OF EQUITY?

16 A. The required cost of capital, including the ROE, is a function of prevailing
17 and expected market conditions. Consistent with the *Hope* and *Bluefield*
18 decisions, the authorized ROE for a public utility should allow the subject
19 company to attract investor capital at reasonable cost under a variety of
20 economic conditions. The ability to attract capital on favorable terms is
21 especially important during a period in which electric utilities, including the

³ *Deepens, Demanding Timely Assessments From Standard & Poor's*, May 15, 2007.
Standard and Poor's, *Assessing Vertically Integrated Utilities' Business Risk Drivers*, U.S. Utilities and
Power Commentary, November 2006, at 10.

1 Company, are making substantial investments to enhance and expand system
2 reliability and capacity.

3
4 Q. PLEASE SUMMARIZE THE CONDITION OF THE CURRENT CREDIT MARKETS.

5 A. The widely discussed financial dislocation and its effect on both lenders and
6 equity investors have resulted in high profile bankruptcies, bank mergers,
7 and significant government intervention in capital markets. The fourth
8 quarter of 2008 through the present continues to be characterized by
9 constrained credit availability, a significant increase in the cost of corporate
10 debt financing and highly volatile and deteriorating equity valuations.
11 Importantly, no sector, including utilities, has been immune to those
12 conditions. Looking forward, FitchRatings (“Fitch”) noted several “key
13 drivers” underlying its outlook for 2009. Among other things, negative
14 factors identified by Fitch include:

- 15 • Higher marginal cost of debt;
- 16 • Depressed equity valuations; and
- 17 • Liquidity and market access to remain fragile.⁴

18
19 As discussed throughout the remainder of this section, the maintenance of
20 adequate liquidity, access to capital markets, and the implications for the
21 Company’s ability to make investments are critical considerations in
22 assessing the reasonableness of the Company’s ROE.

23
24 Q. HOW HAVE THE CURRENT CAPITAL MARKET CONDITIONS AFFECTED THE

1 AVAILABILITY AND COST OF CAPITAL?

2 A. The current state of the financial markets has led to a general decrease in the
3 availability of, and an increase in, the cost of both debt and equity capital for
4 all market sectors, including utilities. Fitch, for example, noted that several
5 investment grade utility operating companies issued senior unsecured debt
6 with financing costs that were 250 to 450 basis points above the 5.00 percent
7 to 6.00 percent financing costs that were achievable only one year earlier.⁵
8 Fitch further noted that without a meaningful increase in the average
9 authorized ROE, the industry may have difficulty attracting capital to fund
10 much needed infrastructure improvements.

11
12 Q. ARE THERE ANY OBSERVABLE BENCHMARKS TO ASSESS THE CHANGE IN THE
13 COST OF CAPITAL?

14 A. Yes. A directly observable measure of the increased cost of capital for
15 utilities is the change in credit spreads (*i.e.*, the difference between the yield
16 on corporate debt and the yield on Treasury securities of comparable
17 maturities over time). As shown in Chart 1 (below), credit spreads for both
18 A-rated and Baa-rated utility debt have increased significantly since
19 September 2008. In fact, the credit spread for Baa-rated debt increased from
20 approximately 197 basis points in January 2008 to over 266 basis points
21 prior to the Lehman Brothers' bankruptcy.⁶ Since that time, the average

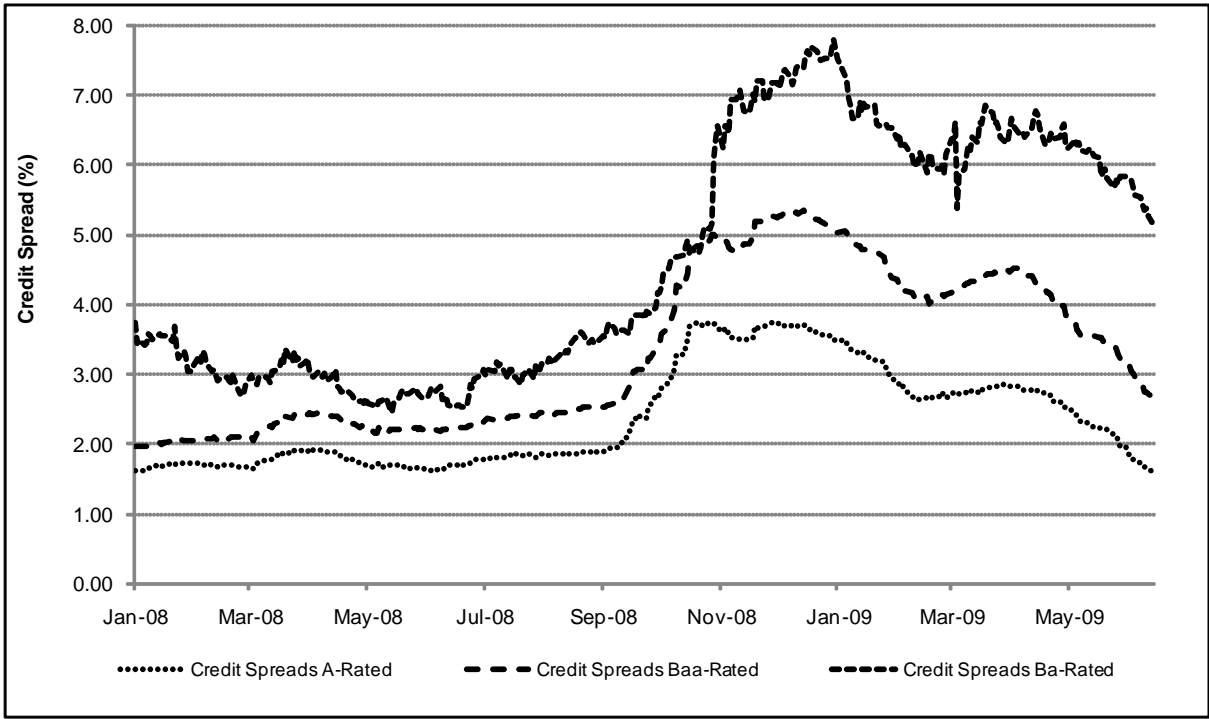
⁴ FitchRatings, *U.S. Utilities, Power and Gas 2009 Outlook*, December 22, 2008, at 2.

⁵ *Ibid.*

⁶ Lehman Brothers' bankruptcy petition was dated September 14, 2008.

1 credit spread for Baa-rated utilities has been approximately 429 basis points.
 2 Importantly, the difference in credit spreads increases significantly as credit
 3 ratings fall. (As discussed in more detail below, the increased credit spreads
 4 reflect higher yields on utility debt resulting from elevated concerns
 5 regarding default risk and market volatility.) As a consequence, maintaining
 6 a strong credit profile in the current capital market environment remains
 7 particularly important for both investors and ratepayers.

8 **Chart 1: A, Baa, Ba Credit Spreads from Treasury Yields**



9

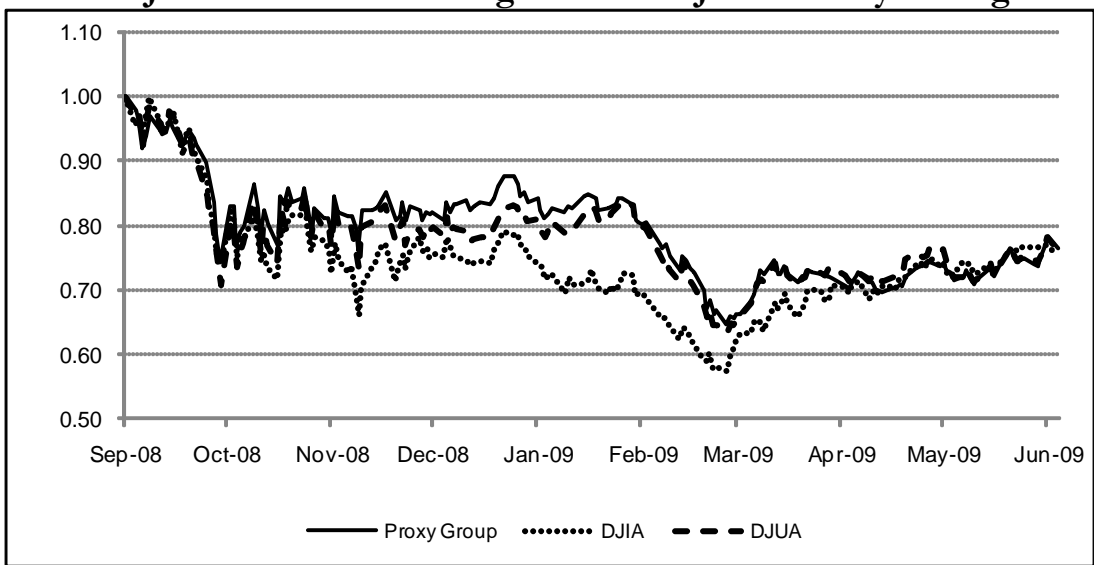
10

11 Q. HAS THE EQUITY MARKET REACTED IN A SIMILAR FASHION?

12 A. Yes, it has. All segments of the equity market, including utilities, have
 13 experienced significant losses in value, and substantially increased levels of
 14 volatility. As Chart 2 (below) indicates: (i) the broad market (as measured by
 15 the Dow Jones Industrial Average) lost approximately 24.60 percent of its

1 value in the period between the Lehman bankruptcy and June 15, 2009; and
2 (ii) the utility segment (as measured by the Dow Jones Utility Average) lost
3 approximately 23.69 percent of its value during that period. Consistent with
4 these indexes, my proxy group lost approximately 23.42 percent of its value
5 over that same period.

6 **Chart 2: Relative Price Performance: Proxy Group,**
7 **Dow Jones Industrial Average and Dow Jones Utility Average⁷**



8
9
10 Q. WHAT DOES MARKET VOLATILITY TELL US ABOUT THE PERCEIVED LEVEL OF
11 INVESTMENT RISK AND THE RETURN REQUIREMENTS OF INVESTORS?

12 A. From an investor's perspective, increased market volatility represents
13 increased investment risk. Since investors require higher returns as
14 compensation for taking on higher levels of risk, periods of marked increases
15 in price and return volatility also are periods of increased return
16 requirements. Those periods of volatility also coincide with dramatic

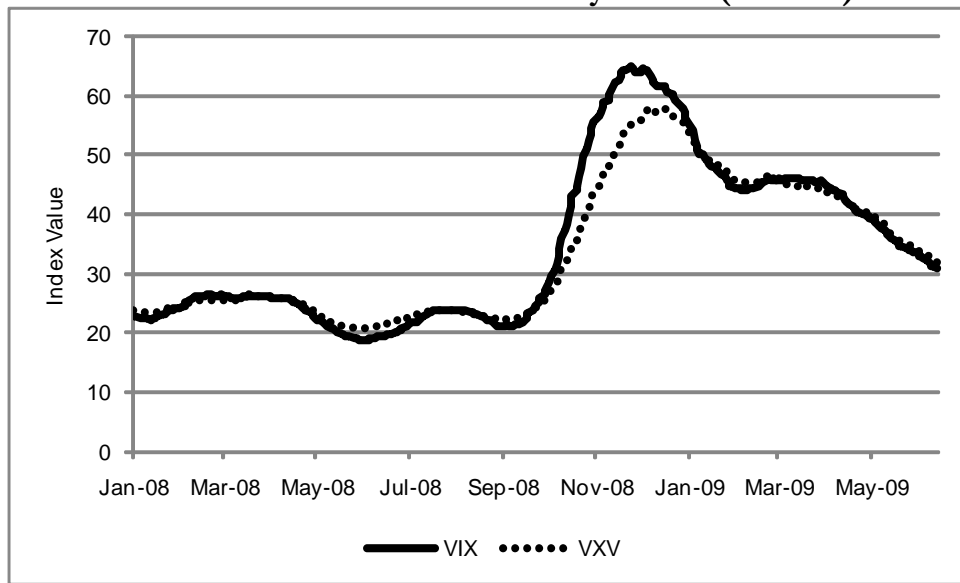
1 increases in the Chicago Board Options Exchange Volatility Index (the
2 “VIX”), which represents the expected volatility for the S&P 500 over the
3 coming 30 days. The VIX, which is a widely recognized measure of market
4 volatility, provides important insight into investors’ view of expected
5 volatility and, therefore, their return requirements.

6
7 Q. HOW DOES THE CURRENT VIX COMPARE TO HISTORIC AVERAGES?

8 A. The 30-day average VIX indicates expected volatility of approximately 30.94
9 percent while the average level of the VIX since its inception in 1990
10 indicates an average expected volatility of 20.16 percent. The current level
11 of the VIX suggests that the capital markets expect volatility to remain above
12 its historical average for the foreseeable future. Consequently, investors’
13 return requirements would be expected to be higher in order to compensate
14 them for the risks and uncertainty associated with elevated market volatility.
15 Chart 3 (below) provides the rolling 30-day average for the VIX since
16 January 2008.

⁷ Source: Bloomberg Professional Service.

1 **Chart 3: Rolling 30-Day Average of the**
 2 **Chicago Board Options Exchange Volatility Index (“VIX”)**
 3 **and S&P 500 3-Month Volatility Index (“VXV”) ⁸**



4
5
6 Q. WHAT CONCLUSIONS DO YOU DRAW FROM THESE DATA?

7 A. These data demonstrate that the financial market dislocation and volatility
 8 that emerged during 2008 continues to be an important consideration in
 9 estimating the cost of equity. It also is important to note that as a result of
 10 the extraordinary conditions recently experienced in the capital markets, it is
 11 extremely important to assess the reasonableness of financial model results
 12 in the context of observable market data.

13
14 Q. HAVE OTHER PUBLIC UTILITY COMMISSIONS ACKNOWLEDGED THE EFFECT
 15 OF THE CURRENT CAPITAL MARKET CONDITIONS ON THE COST OF EQUITY?

16 A. Yes. The Public Utility Commission of Texas (“PUCT”), the Michigan

⁸ Source: Bloomberg Professional Service.

1 Public Service Commission (“MIPSC”), and the Oklahoma Corporation
2 Commission (“OCC”), for example, recently addressed this issue. In a 2009
3 report to the Texas legislature, the PUCT noted the increase in capital costs
4 for utilities due to current economic conditions:

5 Reflecting the difficult economic environment, electric utilities’
6 capital costs have been rising. For utility companies rated
7 “BBB” (the lowest investment-grade rating, and the rating of
8 most investor-owned utilities in Texas), debt costs in
9 November 2008 exceeded nine percent, an exceptionally sharp
10 increase over the approximately six percent rates on
11 comparable BBB securities from a year earlier.⁹
12

13 In its December 23, 2008 Order in Detroit Edison’s 2008 electric rate
14 proceeding, the MIPSC acknowledged the importance of its ROE decision:

15 The Commission is persuaded that the U.S. credit crisis and
16 ensuing breakdown in confidence among financial institutions
17 has led to rising long-term borrowing rates. The freeze of the
18 credit system causes the Commission concern for the utility’s
19 ability to continue to provide financing for infrastructure
20 investment needs, and then to continue to provide safe, reliable
21 and abundant power at reasonable rates. At this time, a
22 cautious approach in changing the company’s ROE is necessary
23 to ensure investor confidence and company access to capital
24 markets.

25 *****

26 Balancing the needs of ratepayers in just and reasonable rates
27 against the need of Detroit Edison to continue to attract capital
28 from the financial markets, the Commission concludes that
29 there is ample justification for maintaining Detroit Edison’s
30 ROE at 11.00%.¹⁰

⁹ Public Utility Commission of Texas, Report to the 81st Texas Legislature, *Scope of Competition in Electric Markets in Texas*, January, 2009, at 5, 6.

¹⁰ Before the Michigan Public Service Commission, In the matter of the application of The Detroit Edison

1
2 In its January 14, 2009 Order in Public Service Company of Oklahoma's
3 ("PSO") 2008 electric rate proceeding, the OCC acknowledged the
4 importance of its ROE decision in the context of the prevailing capital
5 market conditions:

6 Although only PSO argued that the Commission should give
7 consideration to the current financial markets in determining an
8 appropriate ROE for PSO, the Commission recognizes that the
9 uncertainty of the economic markets for at least the near future
10 may have a negative impact on the expectations of investors.
11 The Commission desires that PSO be able to raise the capital it
12 needs to maintain its infrastructure in a safe and reliable
13 manner and implement the Demand Side Management
14 Programs recommended by the Commission.¹¹
15

16 More recently, the Florida Public Service Commission took note of Tampa
17 Electric Company's ("TECO") capital expenditure plans and the difficult
18 capital market environment in arriving at its 11.25 percent ROE
19 authorization:

20 In arriving at this return, we have weighed the results of the
21 witnesses' models against the level of currently authorized
22 returns around the country. We have also taken into account
23 TECO's proposed construction program and its need to access
24 the capital markets during this potentially challenging period. At
25 an equity ratio of approximately 54 percent, an authorized ROE

Company for authority to increase its rates, amend its rate schedules and rules governing the distribution and supply of electric energy, and for miscellaneous accounting authority, Case No. U-15244, issued December 23, 2008, at 22.

¹¹ Order No. 564437, Cause No. PUD 200800144, Application of Public Service Company of Oklahoma, an Oklahoma Corporation, for an adjustment in its Rates and Charges for Electric Service in the State of Oklahoma, issued January 14, 2009, at 11.

1 of 11.25 percent is supported by competent, substantial
2 evidence in the record and satisfies the standards set forth in the
3 Hope and Bluefield decisions of the U.S. Supreme Court
4 regarding a fair and reasonable return for the provision of
5 regulated service.¹²
6

7 Similarly, both the Idaho Public Utilities Commission and Rhode Island
8 Public Utilities Commission took the current market conditions into
9 consideration in 2009.¹³
10

11 Q. HOW HAVE UTILITY COMPANIES RESPONDED TO THESE FINANCIAL MARKET
12 CONDITIONS?

13 A. In general, utilities have responded by adjusting their financing strategies,
14 strengthening their balance sheets, maintaining liquidity, and searching for
15 additional sources of capital. In order to do so, utilities have placed a high
16 priority on managing internal cash flows, as well as containing both
17 operating and capital costs. In that regard, there have been several
18 announcements by utilities regarding planned reductions in capital
19 expenditures. Duke Energy (“Duke”), for example, has scaled back its
20 capital expenditures for 2009 to \$500 million from its original plans of \$800
21 million.¹⁴ In a similar vein, Public Service Enterprise Group (“PSEG”)

¹² Order No. PSC-09-0283-FOF-EI. Docket No. 080317 -EI, In re: Petition for rate increase by Tampa Electric Company. issued April 30, 2009, at 48.

¹³ Before the Idaho Public Utilities Commission, In the Matter of the Application of Idaho Power Company for Authority to Increase its Rates and Charges for Electric Service to its Customers in the State of Idaho, Case No. IPC-E-08-10, Order No. 30722, January 30, 2009, at 30-32. State of Rhode Island and Providence Plantations Public Service Commission, Application for Rate Change Pursuant to R.I.G.L. 39-3-10 and 39-3-11 of Narragansett Electric D/B/A National Grid, Docket No. 3943, Decision and Order, January 29, 2009, at 20.

¹⁴ *Fourth Quarter and Year-End 2008 Earnings Review*, 2009 Outlook, February 5, 2009.

1 reduced 2009 capital expenditures by \$275 million to \$325 million.¹⁵
2 Although both PSEG and Duke are large, creditworthy companies with
3 substantial capital resources, they now find it necessary to reduce capital
4 expenditures, and to focus on internally generated cash flow as a source of
5 funding in order to maintain their current levels of liquidity and financial
6 flexibility.

7
8 Q. CAN A COMMISSION'S ROE DETERMINATION HAVE AN ADVERSE EFFECT ON
9 INVESTORS' REACTIONS?

10 A. Yes. In a very visible demonstration of equity investors reactions to
11 "unsupportive" regulatory awards, UIL Holdings Corp. ("UIL"), the holding
12 company for the United Illuminating Company, saw a significant decrease in
13 its stock price in the days surrounding the announcement of an
14 extraordinarily low ROE included in a draft decision by the Connecticut
15 Department of Public Utility Control (the "DPUC").¹⁶

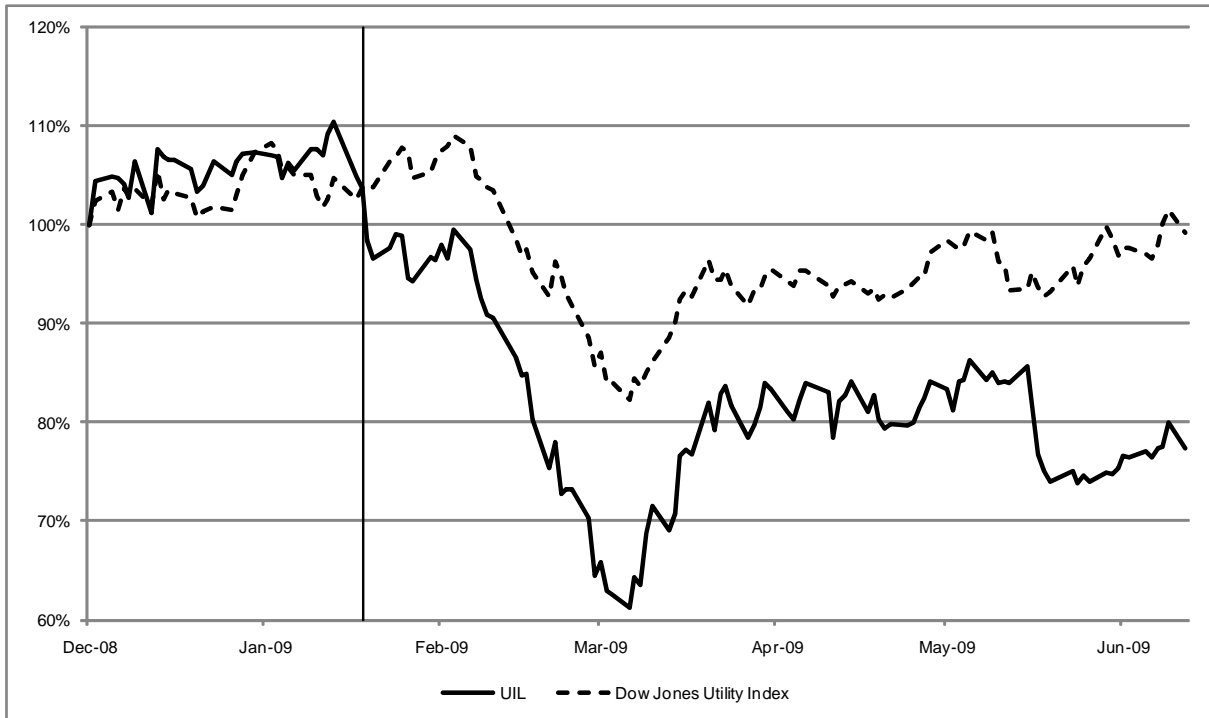
16
17 As Chart 4 demonstrates, UIL's stock price fell substantially and clearly
18 deviated from the performance of the Dow Jones Utility Index both during
19 and since that time period. In fact, since December 4, 2008 (*i.e.*, 30-trading
20 days prior to the DPUC's draft decision), UIL has lost approximately 22.62
21 percent of its value while the Dow Utility Index lost 0.75 percent of its
22 value.

¹⁵ Public Service Enterprise Group, *New York Investor Meetings*, New York, New York, December 10, 2008.

¹⁶ State of Connecticut Department of Public Utility Control, Docket No. 08-07-04, Draft Decision dated January 20, 2009. The effect of the draft decision on UIL's stock price was tested using a linear

1
2
3

Chart 4: UIL Stock Price Performance Relative to Rate Award Announcement



4
5

6 Q. WAS THERE ALSO AN EFFECT ON THE UTILITY'S CAPITAL EXPENDITURE AND
7 OPERATING PLANS?

8 A. Yes. As a consequence of the DPUC's order, UIL substantially cut its
9 operating and maintenance expenses, and reduced its 2009 capital budget by
10 approximately 45.00 percent.¹⁷ In addition, the Company announced that it
11 cancelled its plans to issue \$75 million to \$100 million in new common

¹⁷ regression technique, and was found to be statistically significant.
UIL Holdings Corporation, SEC Form 8-K dated March 11, 2009. Percentages based on midpoints or capital expenditure range projections. See also UIL Holding's Q12009 Earnings Call Transcript -

1 equity during 2009 due to “current capital market conditions.”¹⁸
2 Recognizing the direct relationship between its authorized ROE and
3 investors’ return requirements, UIL stated that:

4 Investors are selling UIL stock, thereby sending a clear
5 message that investors' required equity investment return is
6 higher than the return available to them from owning UIL
7 stock. As a result, UI/UIL do not currently have access to
8 equity capital on reasonable terms.... Accordingly, the
9 Company must reduce capital expenditures until access to
10 equity capital can be achieved at reasonable terms.¹⁹
11

12 It is clear, therefore, that the combination of an inadequate ROE and
13 disruptive market conditions can have a significant effect on a utility’s ability
14 to fund its ongoing operations and capital requirements.
15

16 V. PROXY GROUP SELECTION

17 Q. PLEASE EXPLAIN WHY YOU HAVE USED A GROUP OF PROXY COMPANIES TO
18 DETERMINE THE COST OF EQUITY FOR XCEL ENERGY.

19 A. In this proceeding, we are focused on estimating the cost of equity for an
20 entity that is not publicly traded. Since the cost of equity is a market-based
21 concept, and given that the Company is not publicly traded, it is necessary to

¹⁸ Seeking Alpha, May 6, 2009.

¹⁸ Ibid.

¹⁹ SNL Interactive, *RRAlert--Connecticut DPUC issues decision on reconsideration of United Illuminating rate order*, June 5, 2009.

1 establish a group of companies that are both publicly traded and comparable
2 to the Company in certain fundamental respects to serve as its “proxy” in
3 determining the allowed ROE.

4
5 Even if the Company were a publicly-traded entity, it is possible that
6 transitory events could bias its market value in one way or another over a
7 given period of time. A significant benefit of using a proxy group, therefore,
8 is that it moderates the effects of such events on the analytical results. The
9 use of proxy groups is a therefore is standard practice for financial analysts,
10 including in the determination of the allowed ROE for a regulated utility.

11
12 Q. WHAT ARE SOME OF THE SIGNIFICANT CHARACTERISTICS OF XCEL ENERGY
13 THAT SHOULD BE CONSIDERED IN SELECTION OF A PROXY GROUP?

14 A. Xcel Energy provides electrical service to approximately 80,585 South
15 Dakota customers. Xcel Energy’s current senior unsecured credit rating
16 issued by Standard and Poor’s is BBB+ (outlook: positive); and by Moody’s
17 Investor Services is A3 (outlook: stable). Table 1 provides relevant financial
18 and operating statistics for Xcel Energy for the most recent three years.

19
20 **Table 1: Xcel Energy Electric Operating**
21 **and Financial Results 2006 to 2008**

	2006	2007	2008
Total Operating Revenues (thousands)	\$167,766	\$179,947	\$183,384
Electric Customers	76,581	78,966	80,585
MWh Sold	1,847,004	1,960,443	1,942,545
Operating Income (thousands)	\$18,293	\$21,176	\$17,095

22

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

2 A. Keeping in mind that my objective is to select a proxy group that is highly
3 representative of the risks and prospects faced by Xcel Energy, I selected my
4 proxy group based on the following criteria:

- 5 • I selected companies that Value Line classifies as Electric Utilities,
6 which includes a group of 54 domestic U.S. utilities.
- 7 • Based on Beta estimates from Value Line and Bloomberg, I selected
8 companies whose Betas fall within a reasonable range (plus or minus
9 one standard deviation) of the group average.
- 10 • I excluded companies that do not pay cash dividends or have
11 decreased their dividend payment in the last year, because such
12 companies cannot be analyzed using the DCF model (which is the
13 primary method used in my analysis).
- 14 • I selected companies that are covered by at least two generally
15 recognized utility industry equity analysts.
- 16 • I selected companies that have senior bond and/or corporate ratings
17 of BBB- to AA.
- 18 • I selected proxy companies that are vertically integrated utilities (*i.e.*,
19 utilities that own and operate regulated generating assets).
- 20 • I excluded companies whose regulated revenues and net income in
21 2007 and 2008 comprised less than 60.00 percent of the respective
22 totals for the company.
- 23 • I excluded companies whose regulated electric operating income
24 represented less than 90.00 percent of total regulated operating
25 income.
- 26 • I excluded companies whose coal-fired generation constituted less

1 than 10.00 percent of the generation resource portfolio.

- 2 • Finally, I eliminated any companies that are currently known to be
3 party to a merger, or other significant transaction.

4
5 Q. DID YOU INCLUDE XCEL ENERGY IN YOUR ANALYSIS?

6 A. No, I did not. In order to avoid the circular logic that otherwise would
7 occur, it is my practice to exclude the subject company from the proxy
8 group.

9
10 Q WHY IS IT IMPORTANT TO CONSIDER ONLY COMPANIES WHOSE RESOURCE
11 PORTFOLIOS INCLUDE COAL-FIRED GENERATING ASSETS?

12 A. Xcel Energy's operations are heavily dependent on coal-fired generation
13 (nearly 54.00 percent of net generation and 47.00 percent of operating
14 capacity).²⁰ In general, capital-intensive baseload generation assets such as
15 coal-fired plants face risks associated with capital recovery in the event of
16 market structure changes or plant failure, or replacement cost recovery in the
17 event of extended or unplanned outages. In addition, coal-fired assets may
18 require significant increases in capital requirements to comply with changes
19 in environmental policies. This is particularly relevant given that the
20 likelihood of regulation of carbon emissions in the form of either a cap or a
21 tax has recently increased with the passage on June 9, 2009 of the Waxman-
22 Markey cap and trade bill by the House of Representatives Energy and
23 Commerce Committee. Further, there is increased scrutiny and enforcement

²⁰ Source: SNL Financial Energy Service.

1 of existing emissions regulations specifically effecting coal-fired generating
2 facilities.

3
4 Q BASED ON THE CRITERIA DISCUSSED ABOVE, WHAT IS THE COMPOSITION OF
5 YOUR PROXY GROUP?

6 A. The criteria discussed resulted in a proxy group of the following nine
7 companies:

- 8 • American Electric Power
- 9 • Cleco Corp.
- 10 • Empire District Electric
- 11 • Entergy Corp
- 12 • IDACORP, Inc.
- 13 • Pinnacle West Capital
- 14 • Portland General
- 15 • Progress Energy
- 16 • Westar Energy

17
18 Q. DO YOU BELIEVE THAT A TOTAL OF NINE COMPANIES CONSTITUTES A
19 SUFFICIENTLY LARGE PROXY GROUP?

20 A. Yes, I do. The analyses performed in estimating the ROE are more likely to
21 be representative of the subject utility's cost of equity to the extent that the
22 chosen proxy companies are not randomly selected and are fundamentally
23 comparable to the subject utility. Consequently, there is no reason to place
24 more reliance on the quantitative results of a larger proxy group simply by
25 virtue of the resulting larger number of observations.

26

1 **VI. DETERMINATION OF THE APPROPRIATE COST OF EQUITY**

2 Q. PLEASE BRIEFLY DISCUSS THE COST OF EQUITY IN THE CONTEXT OF THE
3 OVERALL REGULATED ROR.

4 A. The overall ROR for a regulated utility is based on its weighted average cost
5 of capital, in which the cost rates of the individual sources of capital are
6 weighted by their respective book values. While the costs of debt can be
7 directly observed, the cost of equity is market-based and, therefore, must be
8 inferred from market-based information.

9

10 Q. HOW IS THE REQUIRED ROE DETERMINED?

11 A. The required ROE is estimated by using one or more analytical techniques
12 that use market-based data to quantify the range of investor expectations
13 regarding the required cost of equity. I then apply my informed judgment to
14 the results of those analyses, to determine where within the range of results
15 the ROE for Xcel Energy should fall. The resulting adjusted cost of equity
16 serves as the ROE for ratemaking purposes. As a general proposition, the
17 key consideration in determining the cost of equity is to ensure that the
18 methodologies employed provide reasonable reflection of investors' view of
19 the financial markets in general, and the subject company's common stock in
20 particular.

21

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

23 A. I used the DCF model as the initial approach; I then considered the results
24 of the CAPM and an alternative Risk Premium approach in assessing the
25 reasonableness of the DCF results and developing my ROE
26 recommendation.

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

A. As noted above, the cost of equity is not directly observable and, therefore, 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. It is for that reason, in fact, that Concentric uses multiple approaches to estimate the cost of equity used in performing valuations in the context of our financial advisory and transaction practices. In addition, as a practical matter, 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.²¹

A. Cost of Equity under the DCF Approach

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

19 A. Yes. DCF models are widely used in regulatory proceedings and have sound
20 theoretical bases, although neither the DCF model nor any other model can
21 be applied without considerable judgment in the selection of data and the
22 interpretation of results. In its simplest form, the DCF model expresses the

²¹ Tom Copeland, Tim Koller and Jack Murrin, *Valuation: Measuring and Managing the Value of Companies*, 3rd ed. (New York: McKinsey & Company, Inc., 2000) 214; Eugene Brigham, Louis Gapenski, *Financial Management: Theory and Practice*, 7th Ed. (Orlando: Dryden Press, 1994) 341.

1 cost of equity as the sum of the expected dividend yield and long-term
2 growth rate.

3
4 Q. PLEASE DESCRIBE THE CONSTANT GROWTH DCF APPROACH.

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

$$8 \quad P_0 = \frac{D_1}{(1+k)} + \frac{D_2}{(1+k)^2} + \dots + \frac{D_\infty}{(1+k)^\infty} \quad [1]$$

9 Where P_0 represents the current stock price, $D_1 \dots D_\infty$ are all expected future
10 dividends, and k is the discount rate, or required ROE. Equation [1] is a
11 standard present value calculation, which can be simplified and rearranged
12 into the familiar form:

$$13 \quad k = \frac{D(1+g)}{P_0} + g \quad [2]$$

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

17
18 Q. WHAT ASSUMPTIONS ARE REQUIRED FOR THE DCF MODEL?

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

1

2 **B. Dividend Yield for the DCF Model**

3 Q. PLEASE SUMMARIZE THE ELEMENTS USED TO CALCULATE THE DIVIDEND
4 YIELD COMPONENT IN YOUR DCF MODEL.

5 A. The dividend yield in my DCF model is based on the proxy companies'
6 current dividends and average closing stock prices over two separate periods
7 of time, the most recent 30 and 90 trading days ended June 15, 2009.

8

9 Q. WHY DID YOU USE BOTH A 30 AND 90-DAY AVERAGING PERIOD?

10 A. I believe it is important to use an average of recent trading days to calculate
11 the term P_0 in the DCF model to ensure that the calculated ROE is not
12 skewed by short-term unusual or anomalous events that may affect stock
13 prices on any given trading day. In that regard, the averaging period should
14 be reasonably representative of expected capital market conditions over the
15 long term. At the same time, it is important to reflect the extraordinary
16 conditions that have defined the recent financial markets.

17

18 Q. WHY DID YOU NOT INCLUDE A 180-DAY AVERAGING PERIOD?

19 A. While I have often included a 180-day averaging period in prior analyses, I
20 did not do so here in order to exclude market price data from the time
21 period that was most volatile and therefore most affected by the market
22 turmoil of the third and fourth calendar quarters of 2008.

23

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

26 A. Yes. Since utility companies tend to increase their quarterly dividends at

1 different times throughout the year, it is reasonable to assume that dividend
2 increases will be evenly distributed over calendar quarters. Given that
3 assumption, it is reasonable to apply one-half of the expected annual
4 dividend growth for the purposes of calculating the expected dividend yield
5 component of the DCF model. This adjustment ensures that the expected
6 dividend yield is, on average, representative of the coming twelve-month
7 period and does not overstate the aggregate dividends to be paid during that
8 time. Accordingly, the DCF estimates provided in Exhibit __ (RBH-1),
9 Schedule 3, reflect one-half of the expected growth in the dividend yield
10 component of the model.
11

12 **C. Growth Rates for the DCF Model**

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

15 A. Yes. In its constant growth form, the DCF model assumes a single growth
16 measure in perpetuity. Accordingly, in order to reduce the long-term growth
17 rate to a single measure, one must assume a constant payout ratio, and that
18 earnings per share, dividends per share and book value per share all grow at
19 the same constant rate. Capital allocation decisions that companies may
20 make in response to near-term changes in the business environment may
21 directly affect near-term dividend payout ratios and book value per share
22 growth. Over the long run, however, dividend growth can only be sustained
23 by earnings growth, and the DCF model is based on long term growth.
24 Therefore, for the purposes of the Constant Growth form of the DCF
25 model, growth in earnings represents the appropriate measure of long-term
26 growth. Accordingly, I did not include expected dividend or book value

1 growth rates in my DCF model.

2
3 Q. IS IT CONVENTIONAL PRACTICE TO RELY ON ANALYSTS' FORECASTS AS THE
4 BASIS OF GROWTH RATE PROJECTIONS?

5 A. Yes. The cost of equity is a forward-looking concept that focuses on
6 investor expectations regarding future returns. The estimation of such
7 returns, therefore, should be based on forward-looking or projected data.
8 Indeed, substantial academic research has demonstrated the relationship
9 between analysts' forecasts and investor expectations.²² Other academic
10 research has pointed to the use of both consensus earnings forecasts, and
11 Value Line in particular, as widely used sources of analyst growth forecasts.²³
12 In my view, therefore, Value Line, and Zacks (the latter of which is a
13 consensus forecast estimate) provide appropriate sources of earnings
14 ("EPS") growth forecasts.

15
16 Q. PLEASE SUMMARIZE YOUR APPLICATION OF THE CONSTANT GROWTH DCF

²² In *The Risk Premium Approach to Measuring a Utility's Cost of Equity*, published in Financial Management, Spring 1985, Brigham, Shome and Vinson noted that "evidence in the current literature indicates that (i) analysts' forecasts are superior to forecasts based solely on time series data, and (ii) investors do rely on analysts' forecasts." Similarly, in a review of literature regarding the extent to which analyst forecasts are reflected in stock prices (*Using Analyst's Growth Forecasts to Estimate Shareholder Required Rates of Return*, Financial Management, Spring 1986), Harris noted: "VanderWeide and Carleton recently compare consensus [financial analyst forecasts] of earnings growth to 41 different historical growth measures. They conclude that 'there is overwhelming evidence that the consensus analysts' forecast of future growth is superior to historically-oriented growth measures in predicting the firm's stock price...consistent with the hypothesis that investors use analysts' forecasts, rather than historically-oriented growth calculations, in making stock buy and sell decisions.'"

²³ See, for example, Christofi, Lori and Moliver, *Evaluating Common Stocks Using Value Line's Projected Cash Flows and Implied Growth Rate*, Journal of Investing (Spring 1999); and Harris and Marston, *Estimating Shareholder Risk Premia Using Analysts' Growth Forecasts*, Financial Management, 21 (Summer 1992).

1 MODEL.

2 A. I applied the DCF model to the proxy group of nine electric utility
3 companies, using the following inputs for the price and dividend terms:

4 1. The average daily closing prices for both the 30 and 90 trading days
5 ended June 15, 2009, for the term P_0 ;

6 2. The annualized dividend per share as of June 15, 2009, for the term
7 D_0

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

9 1. The Zacks consensus long-term earnings growth estimates; and

10 2. The Value Line earnings per share growth estimates.

11

12 Q. HOW DID YOU CALCULATE THE RANGE OF DCF RESULTS?

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

19

20 Q. WHAT ARE THE RESULTS OF YOUR DCF ANALYSIS?

21 A. As noted in Table 2 (below), the unadjusted mean DCF results for my proxy
22 group are 12.70 percent and 12.77 percent for the 30 and 90-trading day
23 periods, respectively. The mean high DCF result for the 30 and 90-day
24 averaging periods were 13.44 percent and 13.51 percent, respectively.

1 **Table 2: Mean DCF Results**

	Mean Low	Mean	Mean High
30-Day Average	11.96%	12.70%	13.44%
90-Day Average	12.04%	12.77%	13.51%

2
3
4 Q. DID YOU UNDERTAKE ANY ADDITIONAL ANALYSES TO SUPPORT YOUR DCF
5 MODEL RESULTS?

6 A. Yes. As noted earlier, I also used the CAPM and the Risk Premium
7 approaches as means of assessing the reasonableness of my DCF results.
8

9 **D. CAPM Analysis**

10 Q. PLEASE BRIEFLY DESCRIBE THE CAPM.

11 A. The CAPM is a risk premium approach that estimates the cost of equity for
12 a given security as a function of a risk-free return plus a risk premium (to
13 compensate investors for the non-diversifiable or systematic risk of that
14 security). As shown in Equation [3], the CAPM is defined by four
15 components:

16
$$k_e = rf + \beta (r_m - rf) \quad [3]$$

17 where:

18 k_e = the market-required ROE

19 β = Beta of an individual security

20 rf = the risk free rate of return

21 r_m = the required return on the market as a whole
22

23 Here the term $(r_m - rf)$ represents the Market Risk Premium. According to
24 the theory underlying the CAPM, since unsystematic risk can be diversified
25 away, investors should be concerned only with systematic, or non-

1 diversifiable risk. Non-diversifiable risk is measured by Beta, which is
2 defined as:

$$3 \quad \beta = \frac{\text{Covariance}(r_e, r_m)}{\text{Variance}(r_m)} \quad [4]$$

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

9
10 Q. WHAT DID YOU USE FOR THE RISK-FREE RATE COMPONENT OF YOUR CAPM
11 MODEL?

12 A. Since the DCF and CAPM models both assume long-term investment
13 horizons, I used the actual yield on 30-year Treasury Bonds as the risk-free
14 rate. To ensure that the results were not unduly influenced by market
15 events, I used the average yield over a 30-day time period, which resulted in
16 a risk-free rate of 4.37 percent.

17
18 Q. WHAT SOURCE DID YOU USE FOR PROXY GROUP BETA COEFFICIENTS?

19 A. When considering alternative sources of Beta estimates, it is important to
20 recognize that such estimates are based on historical data. In theory, Betas
21 that are far removed from the market Beta of 1.0 may reflect temporary
22 events that may be mitigated over time. Consequently, I have used Betas
23 from Value Line and Bloomberg, both of which adjust their Beta estimates
24 based on an average of the raw, historical Beta and 1.0.

25

1 Q. HOW DID YOU CALCULATE THE MARKET RISK PREMIUM?

2 A. I have considered two approaches to estimate the Risk Premium, both of
3 which are based on widely accepted methodologies, and which explicitly
4 reflect current market conditions. The first approach is particularly timely in
5 that it models the Risk Premium based on expected market volatility. The
6 second approach applies the DCF method to the S&P 500 index, and is a
7 measure of the current required return on the broad equity market.

8
9 Q. PLEASE DESCRIBE YOUR FIRST APPROACH IN CALCULATING THE MARKET
10 RISK PREMIUM.

11 A. I used the Sharpe Ratio in my first approach. The Sharpe Ratio is a measure
12 of the extent to which an investor is compensated for the risks associated
13 with a given security or index of securities.²⁴ Specifically, it is the ratio of the
14 risk premium of a specific security (or index) to the volatility of that security
15 (or index). Over the 83 year period included in the Morningstar data, the
16 market Sharpe Ratio for large company stocks (i.e., the risk premium for
17 large company stocks) has been approximately 0.3177.²⁵ As demonstrated in
18 Equation [5], if we assume that the market Sharpe Ratio remains constant
19 over time, we can estimate the expected market risk premium by multiplying
20 the Sharpe Ratio by the expected market volatility:

21
22
$$\frac{RP_h}{Vol_h} \times Vol_e = RP_e \quad [5]$$

²⁴ See Roger A. Morin, *New Regulatory Finance*, Public Utility Reports, Inc., 2006, at 88-89.

²⁵ As noted earlier, the historical average market risk premium is approximately 0.0650. The historical market standard deviation is approximately 0.2046. The market Sharpe Ratio then is 0.0650/0.2046 or 0.3177.

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where:

RP_b = historical arithmetic average market risk premium;

Vol_b = historical market volatility;

Vol_e = expected market volatility.

The next step is to determine the level of market volatility currently expected by investors. One common method of doing so is to determine the level of volatility that is implied by the observed price of options on the S&P 500 Index. While the calculation of the implied volatility of a market index such as the S&P 500 can be complicated, the CBOE S&P 500 3-Month Volatility Index (“VXV”) provides a transparent, market-based indicator of expected volatility of the S&P 500. The VXV 30-day average implied market volatility is approximately 30.94 percent (see Exhibit__(RBH-1), Schedule 4). Multiplying the long-term average Sharpe Ratio by the implied market volatility (see Equation [6]) produces a required market risk premium of approximately 9.83 percent.

Q. PLEASE DESCRIBE YOUR SECOND APPROACH IN CALCULATING THE MARKET RISK PREMIUM.

A. I used the expected return on the S&P 500 in my second approach (this approach is sometimes referred to as an “*ex-ante*” return). 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 index for which long-term earnings projections are available (the companies with such projections represent 99.37 percent of the index market capitalization). As

1 provided in Exhibit__(RBH-1), Schedule 4, the expected total return on the
2 S&P 500 index is approximately 12.26 percent. As also shown in Exhibit
3 Exhibit__(RBH-1), Schedule 4, the 30-day average yield on long-term
4 Treasury bonds is approximately 4.37 percent. The difference of 7.88
5 percent (12.26 percent less 4.37 percent) represents the estimated market risk
6 premium.

7
8 Q. WHAT IS YOUR CAPM RESULT BASED ON THE EXPECTED MARKET RISK
9 PREMIUM DERIVED FROM YOUR TWO APPROACHES?

10 A. The average of the 9.83 percent market risk premium developed using the
11 Sharpe Ratio approach, and 7.88 percent market risk premium developed
12 using the expected return on the S&P 500 is approximately 8.86 percent.
13 Based on the expected market risk premium of 8.86 percent, the proxy
14 group average Beta coefficient of 0.73, and the risk free rate estimate of 4.37
15 percent (*see* Exhibit__(RBH-1), Schedule 4), the revised CAPM result is
16 approximately 10.85 percent.

17
18 Q. ARE THOSE CAPM ESTIMATES CONSISTENT WITH OTHER ROE ESTIMATION
19 METHODS?

20 A. Yes, they are. As discussed in Section IX, these estimates are consistent with
21 (although somewhat below) both the DCF and Bond Yield plus Risk
22 Premium results.

23

1 **E. Bond Yield plus Risk Premium Analysis**

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

4 A. In general terms, this approach is based on the fundamental principal that
5 equity investors bear the residual risk associated with ownership and
6 therefore require a premium over the return they would have earned as a
7 bondholder. That is, since returns to equity holders are more risky than the
8 returns of bondholders, equity investors must be compensated to bear that
9 risk. Risk premium approaches therefore estimate the cost of equity as the
10 sum of the equity risk premium and the yield on a particular class of bonds.
11 Since we are concerned with estimating the cost of equity for Xcel Energy,
12 an alternative approach is to use actual authorized ROEs for electric utilities
13 as the historical measure of the cost of equity to determine the Risk
14 Premium element for the Bond Yield plus Risk Premium approach and to
15 use the yields on utility bonds to measure the bond yield.

16

17 Q. ARE THERE OTHER FACTORS THAT SHOULD BE CONSIDERED?

18 A. Yes. As noted earlier, recently the absolute level of interest rates on Baa
19 rated utility debt, as well as credit spreads on Baa rated utility debt, have
20 increased dramatically. Given this lack of stability in the market for Baa
21 rated utility debt, therefore, it is important to incorporate the appropriately
22 rated debt index into this analysis.

23

24 It is also important to recognize that the equity risk premium (as used in this
25 approach) is inversely related to the level of interest rates. That is, as interest
26 rates increase (decrease), the equity risk premium decreases (increases).

1 Consequently, it is important to develop an analysis that: (1) reflects the
2 inverse relationship between interest rates and the equity risk premium; and
3 (2) is based on current market conditions.
4

5 Q HOW CAN SUCH AN ANALYSIS BE DEVELOPED?

6 A. Such an analysis can be developed based on a regression of the risk premium
7 as a function of utility bond yields. If we let authorized electric utility ROEs
8 serve as the measure of required equity returns and define Baa-rated utility
9 bond yields as the relevant measure of interest rates, the risk premium simply
10 would be the difference between those two points.²⁶
11

12 Q. IS IT APPROPRIATE TO USE UTILITY BOND YIELDS AS THE MEASURE OF
13 INTEREST RATES?

14 A. Yes. The use of utility bond yields as the relevant measure of interest rates is
15 important in the current economic environment. As noted earlier, while
16 Treasury yields generally have continued to decrease, credit spreads have
17 significantly increased. As such, the use of Treasury yields as the sole
18 measure of interest rates may understate the current equity risk premium.
19

20 Q. WHAT DID YOUR RISK PREMIUM ANALYSIS REVEAL?

21 A. As shown on Chart 5 (below), from 1990 through the second quarter of

²⁶ See e.g., S. Keith Berry, *Interest Rate Risk and Utility Risk Premia during 1982-93*, Managerial and Decision Economics, Vol. 19, No. 2 (March, 1998), in which the author used a methodology similar to the regression approach described below, including using allowed ROEs as the relevant data source, and came to similar conclusions regarding the inverse relationship between risk premia and interest rates. See also Robert S. Harris, *Using Analysts' Growth Forecasts to Estimate Shareholders Required Rates of Return*, Financial Management, Spring 1986, at 66.

1 2009 there was, in fact, a strong negative relationship between risk premia
2 and interest rates on utility bonds. To estimate that relationship, I
3 conducted a regression analysis using the following equation:

$$4 \quad RP = a + b(M) \quad [6]$$

5 where:

6 RP = Risk Premium (difference between allowed ROEs and Moody's
7 Baa Utility Bond Index Yield)

8 a = Intercept term

9 b = Slope term

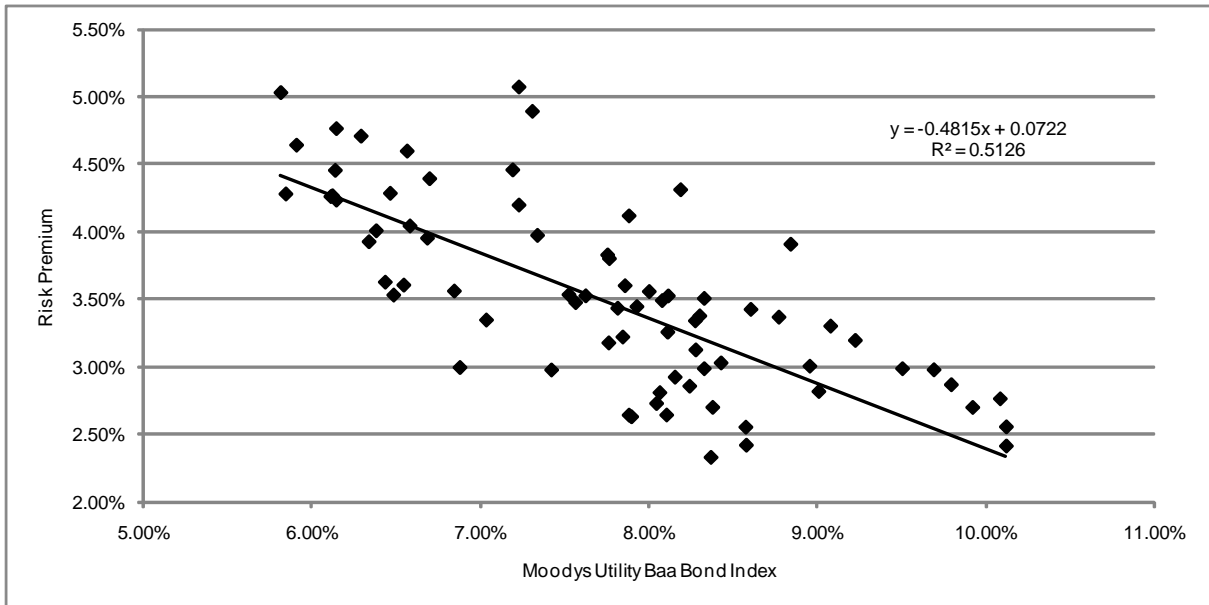
10 M = Moody's Baa-rated Long-Term Utility Bond Index Yield

11
12 Data regarding allowed ROEs was derived from 610 rate cases from 1990
13 through the second quarter of 2009 as reported by Regulatory Research
14 Associates. This equation's coefficients were statistically significant at the
15 99.00 percent level.²⁷

²⁷ In order to ensure that the regression coefficients were not biased as a result of serially correlated error terms, the equation presented in Exhibit ____ (RBH-1), Schedule 5 was estimated using the Prais-Winston corrective routine. That equation continues to produce a negative slope coefficient and an ROE estimate of approximately 11.19 percent.

1

Chart 5: Risk Premium vs. Interest Rates²⁸



2

3

4 As shown on Exhibit ____ (RBH-1), Schedule 5, from 1990 through the
 5 second quarter of 2009, the average risk premium was approximately 3.46
 6 percent. Based on the regression coefficients, the appropriate risk premium
 7 is 3.53 percent. As shown in Exhibit ____ (RBH-1), Schedule 5, using
 8 historical measures of the Baa-rated utility debt, the ROE would range from
 9 11.19 percent to 11.28 percent, with a mean of 11.23 percent.

10

11 **F. Flotation Cost Recovery**

12 Q. WHAT ARE FLOTATION COSTS?

13 A. Flotation costs are the costs associated with the sale of new issues of

²⁸ Sources: Regulatory Research Associates, SNL Database, accessed June 16, 2009 and Bloomberg Professional Service.

1 common stock. These costs include out-of-pocket expenditures for the
2 preparation, filing, underwriting, and other costs of issuance of common
3 stock. Out-of-pocket flotation costs are reflected in the equity portion of
4 the balance sheet as a reduction to “paid-in capital” or “paid-in surplus” to
5 reflect the reduced proceeds from the equity issuance.

6
7 Q. SHOULD FLOTATION COSTS BE REFLECTED IN THE ALLOWED ROE?

8 A. Yes. In order to attract and retain new investors, a regulated utility must
9 have the opportunity to earn a return that is both competitive and
10 compensatory. To the extent that a company is denied the opportunity to
11 recover prudently incurred flotation costs, actual returns will fall short of
12 expected (or required) returns, thereby diminishing its ability to attract
13 adequate equity capital on reasonable terms. Flotation costs, like
14 investments in rate base or the issuance costs of long-term debt, are incurred
15 over time. As a result, the great majority of a utility’s flotation costs are
16 incurred prior to the test year, but remain part of the cost structure that
17 exists during the test year and beyond, and as such, should be recognized for
18 ratemaking purposes.

19
20 Q. IS THE NEED FOR A FLOTATION COST ADJUSTMENT RECOGNIZED BY THE
21 ACADEMIC AND FINANCIAL COMMUNITIES?

22 A. Yes. The need to reimburse investors for equity issuance costs is justified by
23 the academic and financial communities in the same spirit that investors are

1 reimbursed for the costs of issuing debt.²⁹ The need to compensate
2 investors for costs incurred for all past issuances comprising the total equity
3 portion of the Company's capitalization is also recognized.³⁰
4

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

7 A. No. All the models used to estimate the appropriate return on equity
8 assume no "friction" or transaction costs, as these costs are not reflected in
9 the market price (in the case of the DCF model) or risk premium (in the case
10 of the CAPM). Therefore, it is appropriate to either make an express
11 adjustment to the DCF and CAPM models or to consider flotation costs in
12 determining where within the range of reasonable returns Xcel Energy's
13 return should fall.
14

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

16 A. Yes. My analysis indicates an adjustment to the ROE of over 30 basis
17 points. However, rather than proposing such an adjustment, I have
18 considered flotation costs and the other business risks discussed below in my
19 final recommended ROE.
20

21 VII. BUSINESS AND ECONOMIC RISKS

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

²⁹ Shannon P. Pratt, *Cost of Capital Estimation and Applications*, Second Edition, at 220-221.

³⁰ Cleveland S. Patterson, *Flotation Cost Allowance in Rate of Return Regulation: Comment*, *The Journal of Finance*, Vol. XXXVIII, No. 4, September 1983, at 1337 (clarification and emphasis added).

1 AN APPROPRIATE ESTIMATE FOR THE COST OF EQUITY FOR XCEL ENERGY?

2 A. No, the mean results do not necessarily provide an appropriate estimate of
3 the Company's cost of equity. In my view, the business and financial risks
4 must be taken into consideration when determining where the Company's
5 cost of equity falls.

6
7 **A. Business Risks**

8 Q. WHAT ARE THE PRIMARY BUSINESS RISKS THAT XCEL ENERGY CURRENTLY
9 FACES?

10 A. The principal business risks facing Xcel Energy are: (1) the need for a very
11 substantial level of capital expenditures, which are far higher than historical
12 levels of investment, and higher than the comparable group; (2) a more
13 highly concentrated service area; and (3) a high dependence on commercial
14 customers.

15
16 *Capital Expenditures*

17 Q. PLEASE SUMMARIZE THE COMPANY'S CAPITAL EXPENDITURE PLAN.

18 A. The 2008 Xcel Energy, Inc. Form 10-K filed with the Securities and
19 Exchange Commission ("SEC") provides the Company's capital expenditure
20 plan for the period 2009 through 2012.³¹ That projection indicates that the
21 Company plans approximately \$4.63 billion for electric construction over
22 that period.

23

1 Q. HOW IS THE COMPANY'S RISK PROFILE AFFECTED BY THE SUBSTANTIAL
2 INCREASE IN ITS PLANNED CAPITAL EXPENDITURES?

3 A. As with any utility faced with a substantial capital expenditure plan, the
4 Company's risk profile is adversely affected in two significant and related
5 ways: (1) the heightened level of investment increases the risk of under-
6 recovery, or the delayed recovery of the invested capital; and (2) an
7 inadequate authorized return will put downward pressure on key credit
8 metrics.

9

10 Q. HAVE THE RISKS ASSOCIATED WITH ELEVATED CAPITAL EXPENDITURES
11 BEEN RECOGNIZED BY THE FINANCIAL COMMUNITY?

12 A. Yes, they have. Rating agencies, for example, have consistently focused on
13 the detrimental effect on cash flows and corresponding pressure on credit
14 metrics resulting from elevated capital expenditures. In effect, the additional
15 pressure on cash flows exerts corresponding pressure on credit metrics and,
16 therefore, credit ratings. In fact, Standard & Poor's commented on this
17 concern in its August 2007 analysis of the electric utility industry:

18 Utilities are aggressively investing in generation facilities to
19 address rising demand and replace retiring assets, in
20 transmission plants to replace and build out an aging grid,
21 and in distribution systems that need to be expanded and
22 made more efficient.³²

23

24 More recently, Fitch Ratings noted that:

³¹ See, Xcel Energy, Inc. 2008 SEC Form 10-K, at 72.

1 Jurisdictional regulatory practices will be a key of
2 creditworthiness in the sector. Utilities operating in states
3 with regulatory mechanisms in place that facilitate timely
4 recovery of costs and a reasonable return on investment in
5 rates are more likely to come through this period of stress
6 with limited deterioration of credit quality. Conversely, the
7 ratings of utilities operating in states with relatively low
8 authorized ROEs and significant regulatory lag are more
9 likely to suffer credit deterioration.³³
10

11 Equity investors also recognize the pressure on cash flows associated with
12 relatively high levels of capital expenditures, and the resulting effect on the
13 cost of capital. As noted by Wachovia Capital Markets:

14 The harsh reality is that the recession (or depression?) and
15 concurrent bank turmoil is all happening in the midst of a
16 major long-term building cycle for the industry, which in
17 and of itself poses substantial financing and regulatory
18 risks.

19 ***

20 The debt markets remain open, but there is a great deal of
21 concern about maintaining credit quality as a move down
22 the credit curve can result in substantial costs given large
23 spread differentials.³⁴
24

25 Q. HOW DOES THE LEVEL OF THE COMPANY'S EXPECTED CAPITAL
26 EXPENDITURES COMPARE TO THE PROXY GROUP?

27 A. In order to reasonably make that comparison, as shown in Exhibit__(RBH-

³² Standard and Poor's, *Electric Utilities Industry Survey*, August 9, 2007, at 6.

³³ FitchRatings, *U.S. Utilities, Power and Gas 2009 Outlook*, December 2008, at 12.

³⁴ Wachovia Capital Markets, LLC, Equity Research, *Takeaways from Platts Conference*, April 9, 2009, at 3.

1 1), Schedule 6, I calculated the ratio of expected capital expenditures to net
2 assets³⁵ for each of the proxy group companies. For the projected period
3 from 2009-2014, I performed that calculation using the Company's projected
4 electric capital expenditures and its total net assets as of December 31, 2008.
5 It is clear from this analysis that the Company's relative level of capital
6 expenditures is materially greater than the capital expenditures of the proxy
7 group companies.

8
9 Q. WHAT ARE YOUR CONCLUSIONS REGARDING THE EFFECT OF THE
10 COMPANY'S CAPITAL SPENDING PLANS ON ITS RISK PROFILE?

11 A. First, it is clear that on a relative basis, the Company has an aggressive capital
12 expenditure program. It also is clear that the financial community
13 recognizes the additional risks associated with substantial capital
14 expenditures and that those risks are reflected in market valuation multiples.
15 In my view, these factors suggest a comparatively high level of risk vis-à-vis
16 the proxy group.

17
18 *Service Area and Customer Concentration*

19 Q. HOW DOES THE COMPANY'S CONCENTRATED SERVICE AREA AND CUSTOMER
20 CONCENTRATION AFFECT ITS BUSINESS RISK?

21 A. The Company's customer base is largely comprised of commercial and
22 industrial customers. Approximately 64.43 percent of its total revenues are

³⁵ Source: Value Line and Xcel and NSP-MN 2008 SEC Forms 10-K. See Exhibit ___(RBH-1), Schedule 6.

1 attributable to sales to commercial and industrial customers.³⁶ Relative to
2 the proxy group, the Company has the highest commercial customer
3 concentration by percent of revenues. The Company's dependence on sales
4 to commercial users subjects its operations to greater cash flow volatility and
5 risk of demand destruction and bypass. Although the Company currently
6 believes its rates are sufficiently competitive to retain its commercial
7 customers, it remains highly exposed to these risks.

8
9 Q. BASED ON THE BUSINESS RISKS IDENTIFIED ABOVE, HOW WOULD YOU
10 CLASSIFY THE COMPANY'S RISK LEVEL RELATIVE TO THE OTHERS IN THE
11 PROXY GROUP?

12 A. As discussed above, the Company faces a higher than average level of
13 business risk relative to the companies in the proxy group associated with
14 substantially higher capital investment levels and, to a lesser extent, its
15 concentrated service area and dependence on commercial customers.
16 Consequently, I believe that the Company has somewhat greater business
17 risks relative to the proxy group.

18
19 **B. Small Size Effect**

20 Q. PLEASE EXPLAIN THE RISK ASSOCIATED WITH SMALL SIZE.

21 A. Both the financial and academic communities have long accepted the
22 proposition that the cost of equity for small firms is subject to a "size

³⁶ Source: SNL Financial Energy Service.

1 effect.”³⁷ While empirical evidence of the size effect often is based on
2 studies of industries beyond regulated utilities, utility analysts also have noted
3 the risks associated with small market capitalizations. Specifically, Ibbotson
4 Associates noted:

5 For small utilities, investors face additional obstacles, such
6 as smaller customer base, limited financial resources, and a
7 lack of diversification across customers, energy sources,
8 and geography. These obstacles imply a higher investor
9 return.³⁸

10
11 Small size, therefore, leads to two categories of increased risk for investors:
12 (1) liquidity risk (*i.e.*, the risk of not being able to sell one’s shares in a timely
13 manner due to the relatively thin market for the securities); and (2)
14 fundamental business risks.

15
16 Q. HOW DOES XCEL ENERGY’S SOUTH DAKOTA OPERATION COMPARE IN SIZE
17 TO THE PROXY COMPANIES?

18 A. Xcel Energy’s South Dakota operation is substantially smaller than the
19 average for the proxy group companies both in terms of numbers of
20 customers and market capitalization. Exhibit __ (RBH-1), Schedule 7
21 estimates the implied market capitalization (*i.e.*, the implied market
22 capitalization if Xcel Energy’s South Dakota operation was a stand-alone,
23 publicly traded entity). The implied market capitalization based on that
24 calculation is \$148.84 million, which is far below any member of the proxy

³⁷ 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.

³⁸ Michael Annin, *Equity and the Small-Stock Effect*, Public Utilities Fortnightly, October 15, 1995.

1 group. In fact, the median market capitalization for the proxy group (almost
2 \$2 billion) would be more than thirteen times the size of Xcel Energy's
3 implied market capitalization.
4

5 Q. HOW DOES THE SMALLER SIZE OF XCEL ENERGY'S SOUTH DAKOTA
6 OPERATIONS AFFECT ITS BUSINESS RISKS RELATIVE TO THE PROXY GROUP OF
7 COMPANIES?

8 A. In general, smaller companies are less able to withstand adverse events that
9 affect their revenues and expenses. The impact of weather variability, the
10 loss of large customers to bypass opportunities, or the destruction of
11 demand as a result of general macroeconomic conditions or fuel price
12 volatility will have a proportionately greater impact on the earnings and cash
13 flow volatility of smaller utilities. Similarly, capital expenditures for non-
14 revenue producing investments such as system maintenance and
15 replacements will put proportionately greater pressure on customer costs,
16 potentially leading to customer attrition or demand reduction. Taken
17 together, these risks affect the return required by investors for smaller
18 companies.
19

20 Q. HAVE YOU CONSIDERED THE COMPANY'S RELATIVELY SMALL SIZE IN
21 ARRIVING AT YOUR ROE RECOMMENDATION?

22 A. Yes. While I have not made a specific adjustment, I have considered the
23 Company's relatively small size in my assessment of business risks in order
24 to determine where within a reasonable range of returns the required ROE
25 rightly falls.
26

1 **VIII. CAPITAL STRUCTURE AND COST OF DEBT**

2 **A. Capital Structure**

3 Q. WHAT IS THE COMPANY’S PROPOSED CAPITAL STRUCTURE?

4 A. The Company’s proposed capital structure consists of 51.63 percent
5 common equity and 48.37 percent long-term debt, which is based on the
6 thirteen month average test period ending December 31, 2008. The
7 calculation of the proposed capital structure is provided on Exhibit __
8 (RBH-1), Schedule 8, page 3 of 3.

9
10 Q. IS THE COMPANY A SEPARATE LEGAL AND FINANCIAL ENTITY?

11 A. Yes. The Company is a separate legal entity that has its own capital structure
12 and issues its own debt securities. The Company's capital structure and
13 financial performance are thus directly related to the cost of its long-term
14 debt.

15
16 Q. DOES THE COMPANY FILE SEPARATE FINANCIAL STATEMENTS WITH THE
17 SECURITIES AND EXCHANGE COMMISSION (“SEC”)?

18 A. Yes. The Company files annual 10-K and quarterly 10-Q statements with the
19 SEC, as well as registration statements that allow its long-term debt
20 securities to be traded in the financial markets. The credit rating agencies
21 evaluate the Company's capital structure and assign ratings to its debt
22 securities.

23
24 Q. WHAT ARE THE SOURCES OF THE COMPANY'S CAPITAL?

25 A. In addition to internally generated funds, the Company finances its business

1 with a combination of long-term debt and common equity, which comprise
2 its capital structure.

3
4 Q. PLEASE DISCUSS YOUR ANALYSIS OF THE CAPITAL STRUCTURES OF THE PROXY
5 GROUP COMPANIES.

6 A. In order to assess the reasonableness of the Company's proposed capital
7 structure, I reviewed the average capitalization ratios for the past eight
8 quarters of the individual utility operating companies owned and operated
9 (and for which financial information is filed with the FERC) by the
10 respective proxy group companies. As shown in Exhibit__(RBH-1),
11 Schedule 8 the Company's proposed 51.63 percent equity ratio is well within
12 the range of equity ratios for that group, and is slightly below the mean
13 equity ratio of 52.14 percent.

14
15 I also considered the Company's proposed capital structure in the context of
16 its capital investment plan (which was summarized earlier in my testimony).
17 In light of the Company's substantial capital spending plan and given the
18 market conditions discussed earlier in my Direct Testimony, it will be
19 important to maintain the financial flexibility required to optimally finance
20 those investments. As such, the Company's proposed equity ratio is
21 reasonable, and appropriate to maintain the incremental financial flexibility
22 associated with the proposed capital structure.

23
24 Q. WILL THE CAPITAL STRUCTURE AND ROE AUTHORIZED IN THIS
25 PROCEEDING AFFECT THE ABILITY OF THE COMPANY TO COMPLETE ITS
26 CAPITAL EXPENDITURE PLAN?

1 A. Yes, I believe so. The level of earnings authorized by the Commission
2 directly affects the Company's ability to fund capital investment with
3 internally generated funds. As noted earlier in my Direct Testimony,
4 internally generated funds are a very important source of investment funding
5 for all utilities, including the Company. For that reason, credit rating
6 agencies and bond investors expect the Company to be able to generate a
7 substantial portion of its investment funding from operating cash flow in
8 order to maintain its current credit rating. The need to generate funds
9 internally also is important in light of the constrained, volatile, and expensive
10 capital market conditions noted earlier.

11
12 It also is important to realize that investors weigh a given utility's authorized
13 ROE in the context of the nature of its expected capital investments.
14 Because a utility's investment horizon is very long, investors require the
15 assurance of a sufficiently high ROE to satisfy the long-run financing
16 requirements of the assets it puts into service. Those assurances, which
17 often are measured by the relationship between internally generated cash
18 flows and debt (or interest expense), depend quite heavily on the capital
19 structure. As a consequence, both the ROE and capital structure are very
20 important to both debt and equity investors. Given the persistent credit
21 spreads noted earlier in my Direct Testimony, the authorized ROE and
22 capital structure take on even greater significance in constrained and
23 turbulent capital markets.

24

1 **B. Cost of Long-Term Debt**

2 Q. WHAT IS THE COMPANY’S PROPOSED LONG-TERM COST OF DEBT?

3 A. The Company is proposing to use its actual long-term cost of debt of 6.64
4 percent. The calculation of the long-term cost of debt is provided on
5 Exhibit __ (RBH-1), Schedule 9.

6
7 Q. IS THE COMPANY’S LONG-TERM COST OF DEBT REASONABLE?

8 A. Yes. The proposed cost of long-term debt reflects the Company’s actual
9 debt costs. In addition, Exhibit__(RBH-1), Schedule 9, compares the cost
10 of each issuance to the Moody’s A Utility Index (the “Moody’s Index”) at
11 the times of the Company’s debt issuances. The weighted Moody’s Index
12 based on those issuance dates was 6.83 percent, further indicating that the
13 Company’s debt cost of 6.64 percent is reasonable. Based on that analysis, I
14 concluded that the Company’s proposed cost of long-term debt is
15 reasonable.

16

17

18 **IX. SUMMARY AND CONCLUSIONS**

19 Q. PLEASE SUMMARIZE YOUR CALCULATED COST OF EQUITY, TAKING INTO
20 CONSIDERATION THE ISSUES DISCUSSED ABOVE.

21 A. As shown in Table 3 below, the range of ROE mean estimates based on the
22 DCF model is from 12.70 percent to 12.77 percent before consideration of
23 flotation costs or other risk factors. The mean CAPM and Risk Premium
24 results are somewhat lower, but the mean of those results would lead to a
25 range of 10.85 percent to 11.23 percent.

1 **Table 3: ROE Estimate Summary**

	Mean Low	Mean	Mean High
Constant Growth DCF – 30-Day Average	11.96%	12.70%	13.44%
Constant Growth DCF – 90-Day Average	12.04%	12.77%	13.51%
CAPM		10.85%	
Risk Premium (Authorized ROE and Utility Bond Yields)	11.19%	11.23%	11.28%

2
3 Q. WHAT IS YOUR CONCLUSION REGARDING A FAIR ROE FOR XCEL ENERGY?

4 A. An ROE in the range of 11.00 percent to 12.00 percent represents a
5 reasonable and conservative range of equity investors' required return for an
6 equity investment in Xcel Energy in today's capital markets. As noted
7 previously, my review of the data since the onset of the current financial
8 dislocation shows that higher levels of risk are now embodied in investor's
9 long-term return requirements. Given these requirements, the low end of the
10 ROE range (i.e., 11.00 percent) is well below the lowest DCF and Risk
11 Premium results, and only slightly above the mean CAPM result. The 12.00
12 percent top of the range likewise is substantially below the mean DCF
13 results. Further, as discussed earlier in my testimony, the recovery of
14 flotation costs and other risk factors justify an ROE above the mean of the
15 range. As such, my recommended 11.50 percent ROE is a very conservative
16 estimate of the Company's cost of equity. It is my understanding that the
17 Company has requested an ROE of 11.25 percent, which is an even more
18 conservative request.

19
20 Q. WHAT IS YOUR CONCLUSION REGARDING THE APPROPRIATE CAPITAL

1 STRUCTURE FOR XCEL ENERGY?

2 A. I conclude that the Company's capital structure for the 13 month average
3 test period ending December 31, 2008 which includes a 51.63 percent equity
4 ratio, a 48.37 percent long-term debt, and its embedded debt cost of 6.64
5 percent are reasonable.

6
7 Q. PLEASE SUMMARIZE THE COMPANY'S PROPOSED OVERALL COST OF CAPITAL?

8 A. Given the Company's requested ROE of 11.25 percent, a cost of debt of
9 6.64 percent, and the capital structure noted above, the requested rate of
10 return for the Company is 9.02 percent, as shown in Table 4, below.

11 **Table 4: Overall Rate of Return**

	Percent of Capitalization	Cost of Capital	Weighted Cost of Capital
Common Equity	51.63%	11.25%	5.81%
Long-Term Debt	48.37%	6.64%	3.21%
Total	100%		9.02%

12
13 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

14 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, negotiations, 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.

EXPERT TESTIMONY OF ROBERT B. HEVERT

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				
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	Advice Letter No. 94-Steam	Return on Equity (steam)
Xcel Energy	05/05	Public Service Company of Colorado	Docket No. 05-264G	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				
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
Sea Robin Pipeline L.L.C.	06/07	Sea Robin Pipeline L.L.C.	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
Maine Public Utilities Commission				
Northern Utilities, Inc.	07/95	Northern Utilities	Maine PUC	Gas Distribution System Expansion

EXPERT TESTIMONY OF ROBERT B. HEVERT

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Massachusetts Department of Public Utilities				
Bay State Gas Company	04/09	Bay State Gas Company	DPU 9-30	Return on Equity
NSTAR Electric	09/04	NSTAR Electric	D.T.E 04-85	Divestiture of Power Purchase Agreement
NSTAR Electric	08/04	NSTAR Electric	D.T.E 04-78	Divestiture of Power Purchase Agreement
NSTAR Electric	07/04	NSTAR Electric	D.T.E 04-68	Divestiture of Power Purchase Agreement
NSTAR Electric	07/04	NSTAR Electric	D.T.E 04-61	Divestiture of Power Purchase Agreement
NSTAR Electric	06/04	NSTAR Electric	D.T.E 04-60	Divestiture of Power Purchase Agreement
Unitil Corporation	01/04	Fitchburg Gas and Electric	D.T.E. 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				
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)
New Hampshire Public Utilities Commission				
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				

EXPERT TESTIMONY OF ROBERT B. HEVERT

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
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
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	09/08	Public Service Company Of New Mexico	Case No. 08-00273-UT	Return on Equity
Xcel Energy	07/07	Southwestern Public Service Company	Case No. 07-00319-UT	Return on Equity
New York State Public Service Commission				
Niagara Mohawk Power Corporation	07/01	Niagara Mohawk Power Corporation	Case 01-E-	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
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 Dakota Public Utilities Commission				
Otter Tail Power Company	10/08	Otter Tail Power Company	Docket No. EL08-030	Return on Equity
Texas Public Utility Commission				
Texas-New Mexico Power Company	08/08	Texas-New Mexico Power Company	Docket No. 36025	Return on Equity
Xcel Energy	05/06	Southwestern Public Service	SOAH Docket No. 473-06-2536 Docket No. 32766	Return on Equity (electric)
Texas Railroad Commission				

EXPERT TESTIMONY OF ROBERT B. HEVERT

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
CenterPoint Energy Resources Corp. D/B/A CenterPoint Energy Texas Gas	03/08	CenterPoint Energy Resources Corp. D/B/A CenterPoint Energy Texas Gas	Docket No. 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 No. 7175 and 7176	Return on Equity (electric)
Vermont Gas Systems, Inc.	12/05	Vermont Gas Systems	Docket No. 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

30 DAY CONSTANT GROWTH DCF

		[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]
Company	Annualized Dividend	Stock Price	Dividend Yield	Expected Dividend Yield	Zacks EPS Growth	Value Line EPS Growth	Average Growth Rate	Low DCF ROE	Mean DCF ROE	High DCF ROE	
PROXY GROUP ELECTRIC UTILITIES											
American Electric Power	AEP	\$1.64	\$26.24	6.25%	6.40%	5.00%	4.50%	4.75%	10.89%	11.15%	11.41%
Cleco Corp.	CNL	\$0.90	\$21.00	4.29%	4.55%	14.50%	10.50%	12.50%	15.01%	17.05%	19.10%
Empire District Electric	EDE	\$1.28	\$15.61	8.20%	8.55%	NA	8.50%	8.50%	17.05%	17.05%	17.05%
Entergy Corp.	ETR	\$3.00	\$74.08	4.05%	4.18%	7.30%	6.00%	6.65%	10.17%	10.83%	11.50%
IDACORP, Inc.	IDA	\$1.20	\$23.66	5.07%	5.19%	5.00%	4.50%	4.75%	9.69%	9.94%	10.20%
Pinnacle West Capital	PNW	\$2.10	\$27.62	7.60%	7.76%	5.50%	3.00%	4.25%	10.72%	12.01%	13.31%
Portland General	POR	\$1.02	\$18.21	5.60%	5.77%	6.70%	5.50%	6.10%	11.26%	11.87%	12.49%
Progress Energy	PGN	\$2.48	\$35.40	7.01%	7.20%	4.80%	6.00%	5.40%	11.97%	12.60%	13.22%
Westar Energy	WR	\$1.20	\$17.74	6.76%	6.93%	5.70%	4.00%	4.85%	10.90%	11.78%	12.66%
		PROXY GROUP MEAN		6.09%	6.28%	6.81%	5.83%	6.42%	11.96%	12.70%	13.44%

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. [7])))/Col. [2]
[5] Source: Zacks
[6] Source: Value Line
[7] Equals Avg (Col. [5], [6])
[8] Equals (Col. [3] x (1 + (0.5 x Minimum (Col. [5], [6])))) + Minimum (Col. [5], [6])
[9] Equals Col. [4] + Col. [7]
[10] Equals (Col. [3] x (1 + (0.5 x Maximum (Col. [5], [6])))) + Maximum (Col. [5], [6])

90 DAY CONSTANT GROWTH DCF

		[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]
Company	Annualized Dividend	Stock Price	Dividend Yield	Expected Dividend Yield	Zacks EPS Growth	Value Line EPS Growth	Average Growth Rate	Low DCF ROE	Mean DCF ROE	High DCF ROE	
PROXY GROUP ELECTRIC UTILITIES											
American Electric Power	AEP	\$1.64	\$27.02	6.07%	6.21%	5.00%	4.50%	4.75%	10.71%	10.96%	11.22%
Cleco Corp.	CNL	\$0.90	\$21.23	4.24%	4.50%	14.50%	10.50%	12.50%	14.96%	17.00%	19.05%
Empire District Electric	EDE	\$1.28	\$15.01	8.53%	8.89%	NA	8.50%	8.50%	17.39%	17.39%	17.39%
Entergy Corp.	ETR	\$3.00	\$69.17	4.34%	4.48%	7.30%	6.00%	6.65%	10.47%	11.13%	11.80%
IDACORP, Inc.	IDA	\$1.20	\$23.85	5.03%	5.15%	5.00%	4.50%	4.75%	9.64%	9.90%	10.16%
Pinnacle West Capital	PNW	\$2.10	\$27.51	7.63%	7.80%	5.50%	3.00%	4.25%	10.75%	12.05%	13.34%
Portland General	POR	\$1.02	\$17.60	5.79%	5.97%	6.70%	5.50%	6.10%	11.45%	12.07%	12.69%
Progress Energy	PGN	\$2.48	\$35.38	7.01%	7.20%	4.80%	6.00%	5.40%	11.98%	12.60%	13.22%
Westar Energy	WR	\$1.20	\$17.54	6.84%	7.01%	5.70%	4.00%	4.85%	10.98%	11.86%	12.74%
		PROXY GROUP MEAN		6.17%	6.36%	6.81%	5.83%	6.42%	12.04%	12.77%	13.51%

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. [7]))) / Col. [2]
- [5] Source: Zacks
- [6] Source: Value Line
- [7] Equals Avg (Col. [5], [6])
- [8] Equals (Col. [3] x (1 + (0.5 x Minimum (Col. [5], [6])))) + Minimum (Col. [5], [6])
- [9] Equals Col. [4] + Col. [7]
- [10] Equals (Col. [3] x (1 + (0.5 x Maximum (Col. [5], [6])))) + Maximum (Col. [5], [6])

MARKET RISK PREMIUM UTILIZING EXPECTED MARKET SHARPE RATIO

	RP _h	Vol _h	VOL _e	Expected Market Sharpe Ratio	RP _e
	6.50%	20.46%	30.94%	31.77%	9.83%
$\frac{RP_h}{Vol_h} \times Vol_e = RP_e$					

RP_h = historical arithmetic average Risk Premium
 Vol_h = historical market volatility
 Vol_e = expected market volatility

Date	VXV
6/15/2009	30.81
6/12/2009	28.15
6/11/2009	28.11
6/10/2009	28.46
6/9/2009	28.27
6/8/2009	29.77
6/5/2009	29.62
6/4/2009	30.18
6/3/2009	31.02
6/2/2009	29.63
6/1/2009	30.04
5/29/2009	28.92
5/28/2009	31.67
5/27/2009	32.36
5/26/2009	30.62
5/22/2009	32.63
5/21/2009	31.35
5/20/2009	29.03
5/19/2009	28.8
5/18/2009	30.24
5/15/2009	33.12
5/14/2009	31.37
5/13/2009	33.65
5/12/2009	31.8
5/11/2009	32.87
5/8/2009	32.05
5/7/2009	33.44
5/6/2009	32.45
5/5/2009	33.36
5/4/2009	34.53
Average	30.94

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

Estimated Weighted Index Dividend Yield	Weighted Index Long-Term Growth Rate	S&P 500 Estimated Market Return
2.42%	9.72%	12.26%
Percent of Index Capitalization Represented by Estimate:		99.37%
30 Day Average 30-Year Treasury Yield		4.37%
Implied Market Risk Premium		7.88%

Standard and Poor's 500 Index

Ticker	Name	Weight in the Index (%)	Long-Term Growth Estimate (%)	Cap-Weighted Long-Term Growth	Estimated 2009 Dividend Yield (%)	Cap-Weighted Dividend Yield
MMM	UN Equity 3M CO	0.50%	11.57%	0.06%	3.46%	0.02%
ABT	UN Equity ABBOTT LABORATORIES	0.86%	11.35%	0.10%	3.42%	0.03%
ANF	UN Equity ABERCROMBIE & FITCH CO-CL A	0.03%	13.00%	0.00%	2.63%	0.00%
ADBE	UN Equity ADOBE SYSTEMS INC	0.18%	14.10%	0.03%	0.00%	0.00%
AMD	UN Equity ADVANCED MICRO DEVICES	0.03%	13.75%	0.00%	0.00%	0.00%
AES	UN Equity AES CORP	0.08%	11.00%	0.01%	0.00%	0.00%
AET	UN Equity AETNA INC	0.13%	11.50%	0.01%	0.12%	0.00%
ACS	UN Equity AFFILIATED COMPUTER SVCS-A	0.05%	11.86%	0.01%	0.00%	0.00%
AFL	UN Equity AFLAC INC	0.17%	13.34%	0.02%	3.77%	0.01%
A	UN Equity AGILENT TECHNOLOGIES INC	0.08%	12.00%	0.01%	0.00%	0.00%
APD	UN Equity AIR PRODUCTS & CHEMICALS INC	0.16%	5.46%	0.01%	2.78%	0.00%
AKS	UN Equity AK STEEL HOLDING CORP	0.02%	-6.00%	0.00%	1.10%	0.00%
AKAM	UN Equity AKAMAI TECHNOLOGIES	0.04%	13.96%	0.01%	0.00%	0.00%
AA	UN Equity ALCOA INC	0.12%	-3.67%	0.00%	2.08%	0.00%
AYE	UN Equity ALLEGHENY ENERGY INC	0.05%	9.00%	0.00%	2.78%	0.00%
ATI	UN Equity ALLEGHENY TECHNOLOGIES INC	0.04%	-1.50%	0.00%	1.94%	0.00%
AGN	UN Equity ALLERGAN INC	0.17%	13.49%	0.02%	0.31%	0.00%
ALL	UN Equity ALLSTATE CORP	0.15%	10.55%	0.02%	3.51%	0.01%
ALTR	UN Equity ALTERA CORPORATION	0.06%	16.60%	0.01%	1.27%	0.00%
MO	UN Equity ALTRIA GROUP INC	0.41%	8.67%	0.04%	8.03%	0.03%
AMZN	UN Equity AMAZON.COM INC	0.43%	22.23%	0.10%	0.00%	0.00%
AEE	UN Equity AMEREN CORPORATION	0.06%	4.50%	0.00%	6.45%	0.00%
AEP	UN Equity AMERICAN ELECTRIC POWER	0.16%	4.21%	0.01%	6.00%	0.01%
AXP	UN Equity AMERICAN EXPRESS CO	0.34%	9.25%	0.03%	2.67%	0.01%
AIG	UN Equity AMERICAN INTERNATIONAL GROUP	0.23%	11.00%	0.02%	0.00%	0.00%
AMT	UN Equity AMERICAN TOWER CORP-CL A	0.14%	22.88%	0.03%	0.00%	0.00%
AMP	UN Equity AMERIPRISE FINANCIAL INC	0.07%	12.98%	0.01%	2.81%	0.00%
ABC	UN Equity AMERISOURCEBERGEN CORP	0.07%	12.83%	0.01%	0.99%	0.00%
AMGN	UN Equity AMGEN INC	0.65%	12.30%	0.08%	0.00%	0.00%
APH	UN Equity AMPHENOL CORP-CL A	0.07%	17.00%	0.01%	0.26%	0.00%
APC	UN Equity ANADARKO PETROLEUM CORP	0.29%	5.40%	0.02%	0.77%	0.00%
ADI	UN Equity ANALOG DEVICES INC	0.09%	15.50%	0.01%	3.25%	0.00%
AOC	UN Equity AON CORP	0.12%	9.33%	0.01%	1.70%	0.00%
APA	UN Equity APACHE CORP	0.32%	4.01%	0.01%	0.77%	0.00%
AIV	UN Equity APARTMENT INVT & MGMT CO -A	0.01%	5.00%	0.00%	10.22%	0.00%
APOL	UN Equity APOLLO GROUP INC-CL A	0.13%	16.90%	0.02%	0.00%	0.00%
AAPL	UN Equity APPLE INC	1.46%	18.22%	0.27%	0.00%	0.00%
AMAT	UN Equity APPLIED MATERIALS INC	0.18%	11.80%	0.02%	2.15%	0.00%
ADM	UN Equity ARCHER-DANIELS-MIDLAND CO	0.21%	21.00%	0.04%	1.97%	0.00%
AIZ	UN Equity ASSURANT INC	0.03%	8.75%	0.00%	2.38%	0.00%
T	UN Equity AT&T INC	1.72%	3.74%	0.06%	6.83%	0.12%
ADSK	UN Equity AUTODESK INC	0.06%	14.17%	0.01%	0.00%	0.00%
ADP	UN Equity AUTOMATIC DATA PROCESSING	0.22%	10.56%	0.02%	3.53%	0.01%
AN	UN Equity AUTONATION INC	0.04%	10.23%	0.00%	0.00%	0.00%
AZO	UN Equity AUTOZONE INC	0.10%	12.92%	0.01%	0.00%	0.00%
AVB	UN Equity AVALONBAY COMMUNITIES INC	0.05%	7.00%	0.00%	6.26%	0.00%
AVY	UN Equity AVERY DENNISON CORP	0.03%	-0.13%	0.00%	6.41%	0.00%
AVP	UN Equity AVON PRODUCTS INC	0.13%	11.25%	0.01%	3.24%	0.00%
BHI	UN Equity BAKER HUGHES INC	0.14%	13.50%	0.02%	1.52%	0.00%
BLL	UN Equity BALL CORP	0.05%	7.70%	0.00%	0.97%	0.00%

Standard and Poor's 500 Index

Ticker	Name	Weight in the Index (%)	Long-Term Growth Estimate (%)	Cap-Weighted Long-Term Growth	Estimated 2009 Dividend Yield (%)	Cap-Weighted Dividend Yield
BK	UN Equity BANK OF NEW YORK MELLON CORP	0.41%	10.93%	0.04%	2.31%	0.01%
BAC	UN Equity BANK OF AMERICA CORP	1.24%	9.30%	0.12%	0.32%	0.00%
BAX	UN Equity BAXTER INTERNATIONAL INC	0.36%	11.85%	0.04%	2.12%	0.01%
BBT	UN Equity BB&T CORP	0.17%	9.25%	0.02%	5.37%	0.01%
BDX	UN Equity BECTON DICKINSON AND CO	0.20%	12.40%	0.02%	1.92%	0.00%
BBBY	UN Equity BED BATH & BEYOND INC	0.09%	12.40%	0.01%	0.00%	0.00%
BMS	UN Equity BEMIS COMPANY	0.03%	5.73%	0.00%	3.76%	0.00%
BBY	UN Equity BEST BUY CO INC	0.18%	11.89%	0.02%	1.55%	0.00%
BIG	UN Equity BIG LOTS INC	0.02%	14.00%	0.00%		0.00%
BIIB	UN Equity BIOGEN IDEC INC	0.18%	11.08%	0.02%	0.00%	0.00%
BJS	UN Equity BJ SERVICES CO	0.05%	6.00%	0.00%	1.43%	0.00%
BDK	UN Equity BLACK & DECKER CORP	0.02%	1.50%	0.00%	5.73%	0.00%
BMC	UN Equity BMC SOFTWARE INC	0.08%	13.33%	0.01%	0.00%	0.00%
BA	UN Equity BOEING CO	0.43%	9.34%	0.04%	3.43%	0.01%
BXP	UN Equity BOSTON PROPERTIES INC	0.08%	5.67%	0.00%	5.00%	0.00%
BSX	UN Equity BOSTON SCIENTIFIC CORP	0.17%	14.33%	0.02%	0.00%	0.00%
BMY	UN Equity BRISTOL-MYERS SQUIBB CO	0.48%	7.77%	0.04%	6.22%	0.03%
BRCM	UN Equity BROADCOM CORP-CL A	0.13%	13.14%	0.02%	0.00%	0.00%
BF/B	UN Equity BROWN-FORMAN CORP-CLASS B	0.05%	8.50%	0.00%	2.75%	0.00%
BNI	UN Equity BURLINGTON NORTHERN SANTA FE	0.30%	12.30%	0.04%	2.25%	0.01%
CA	UN Equity CA INC	0.11%	12.67%	0.01%	0.94%	0.00%
COG	UN Equity CABOT OIL & GAS CORP	0.04%	-10.29%	0.00%	0.33%	0.00%
CAM	UN Equity CAMERON INTERNATIONAL CORP	0.08%	12.00%	0.01%	0.00%	0.00%
CPB	UN Equity CAMPBELL SOUP CO	0.12%	6.63%	0.01%	3.52%	0.00%
COF	UN Equity CAPITAL ONE FINANCIAL CORP	0.12%	10.58%	0.01%	2.08%	0.00%
CAH	UN Equity CARDINAL HEALTH INC	0.13%	10.79%	0.01%	1.76%	0.00%
CCL	UN Equity CARNIVAL CORP	0.17%	9.82%	0.02%	0.00%	0.00%
CAT	UN Equity CATERPILLAR INC	0.25%	7.80%	0.02%	4.83%	0.01%
CBG	UN Equity CB RICHARD ELLIS GROUP INC-A	0.03%	8.00%	0.00%	0.00%	0.00%
CBS	UN Equity CBS CORP-CLASS B NON VOTING	0.06%	-1.64%	0.00%	3.48%	0.00%
CELG	UN Equity CELGENE CORP	0.25%	28.65%	0.07%	0.00%	0.00%
CNP	UN Equity CENTERPOINT ENERGY INC	0.04%	7.00%	0.00%	7.26%	0.00%
CTX	UN Equity CENTEX CORP	0.01%	12.00%	0.00%	0.00%	0.00%
CTL	UN Equity CENTURYTEL INC	0.04%	3.96%	0.00%	8.87%	0.00%
CEPH	UN Equity CEPHALON INC	0.05%	11.75%	0.01%		0.00%
CF	UN Equity CF INDUSTRIES HOLDINGS INC	0.04%	-13.00%	-0.01%	0.53%	0.00%
CHRW	UN Equity C.H. ROBINSON WORLDWIDE INC	0.10%	15.00%	0.02%	1.91%	0.00%
CHK	UN Equity CHESAPEAKE ENERGY CORP	0.17%	8.67%	0.01%	1.34%	0.00%
CVX	UN Equity CHEVRON CORP	1.67%	3.31%	0.06%	3.81%	0.06%
CB	UN Equity CHUBB CORP	0.17%	5.19%	0.01%	3.49%	0.01%
CIEN	UN Equity CIENA CORP	0.01%	10.83%	0.00%	0.00%	0.00%
CI	UN Equity CIGNA CORP	0.07%	10.29%	0.01%	0.32%	0.00%
CINF	UN Equity CINCINNATI FINANCIAL CORP	0.04%	No Long-Term Growth		7.36%	0.00%
CTAS	UN Equity CINTAS CORP	0.04%	10.50%	0.00%	2.23%	0.00%
CSCO	UN Equity CISCO SYSTEMS INC	1.34%	11.11%	0.15%	0.00%	0.00%
CIT	UN Equity CIT GROUP INC	0.01%	11.75%	0.00%	0.74%	0.00%
C	UN Equity CITIGROUP INC	0.21%	8.00%	0.02%	0.54%	0.00%
CTXS	UN Equity CITRIX SYSTEMS INC	0.07%	12.55%	0.01%	0.00%	0.00%
CLX	UN Equity CLOROX COMPANY	0.09%	9.70%	0.01%	3.28%	0.00%
CME	UN Equity CME GROUP INC	0.26%	7.40%	0.02%	1.53%	0.00%
CMS	UN Equity CMS ENERGY CORP	0.03%	6.50%	0.00%	4.15%	0.00%
COH	UN Equity COACH INC	0.10%	15.00%	0.02%	0.00%	0.00%
KO	UN Equity COCA-COLA CO/THE	1.34%	8.31%	0.11%	3.40%	0.05%
CCE	UN Equity COCA-COLA ENTERPRISES	0.10%	7.88%	0.01%	1.65%	0.00%
CTSH	UN Equity COGNIZANT TECH SOLUTIONS-A	0.09%	17.46%	0.02%	0.00%	0.00%
CL	UN Equity COLGATE-PALMOLIVE CO	0.42%	10.50%	0.04%	2.44%	0.01%
CMCSA	UN Equity COMCAST CORP-CL A	0.35%	9.11%	0.03%	1.94%	0.01%
CMA	UN Equity COMERICA INC	0.04%	6.07%	0.00%	0.98%	0.00%
CSC	UN Equity COMPUTER SCIENCES CORP	0.08%	8.75%	0.01%	0.00%	0.00%
CPWR	UN Equity COMPUWARE CORP	0.02%	No Long-Term Growth			0.00%
CAG	UN Equity CONAGRA FOODS INC	0.10%	8.83%	0.01%	4.37%	0.00%
COP	UN Equity CONOCOPHILLIPS	0.76%	3.77%	0.03%	4.41%	0.03%
ED	UN Equity CONSOLIDATED EDISON INC	0.12%	4.00%	0.00%	6.45%	0.01%
CNX	UN Equity CONSOL ENERGY INC	0.08%	21.50%	0.02%	1.10%	0.00%
CEG	UN Equity CONSTELLATION ENERGY GROUP	0.06%	12.50%	0.01%	4.50%	0.00%
STZ	UN Equity CONSTELLATION BRANDS INC-A	0.03%	8.43%	0.00%	0.00%	0.00%
CVG	UN Equity CONVERGYS CORP	0.01%	10.43%	0.00%	0.00%	0.00%
CBE	UN Equity COOPER INDUSTRIES LTD-CL A	0.06%	12.75%	0.01%	3.24%	0.00%
GLW	UN Equity CORNING INC	0.29%	13.33%	0.04%	1.30%	0.00%
COST	UN Equity COSTCO WHOLESALE CORP	0.25%	12.20%	0.03%	1.45%	0.00%
CVH	UN Equity COVENTRY HEALTH CARE INC	0.03%	9.22%	0.00%	0.00%	0.00%
BCR	UN Equity CR BARD INC	0.09%	14.29%	0.01%	0.86%	0.00%
CSX	UN Equity CSX CORP	0.16%	14.90%	0.02%	2.55%	0.00%
CMI	UN Equity CUMMINS INC	0.08%	4.00%	0.00%	2.15%	0.00%
CVS	UN Equity CVS CAREMARK CORP	0.54%	13.75%	0.07%	0.96%	0.01%
DHR	UN Equity DANAHAN CORP	0.24%	12.14%	0.03%	0.20%	0.00%
DRI	UN Equity DARDEN RESTAURANTS INC	0.05%	12.30%	0.01%	2.59%	0.00%
DVA	UN Equity DAVITA INC	0.06%	11.94%	0.01%	0.00%	0.00%
DF	UN Equity DEAN FOODS CO	0.04%	10.70%	0.00%	0.00%	0.00%

Standard and Poor's 500 Index

Ticker	Name	Weight in the Index (%)	Long-Term Growth Estimate (%)	Cap-Weighted Long-Term Growth	Estimated 2009 Dividend Yield (%)	Cap-Weighted Dividend Yield
DE	UN Equity DEERE & CO	0.21%	7.00%	0.01%	2.59%	0.01%
DELL	UW Equity DELL INC	0.30%	11.00%	0.03%	0.00%	0.00%
DNR	UN Equity DENBURY RESOURCES INC	0.05%	7.05%	0.00%	0.00%	0.00%
XRAY	UW Equity DENTSPLY INTERNATIONAL INC	0.05%	13.67%	0.01%	0.68%	0.00%
DVN	UN Equity DEVON ENERGY CORPORATION	0.33%	3.43%	0.01%	1.03%	0.00%
DV	UN Equity DEVRY INC	0.04%	19.57%	0.01%	0.30%	0.00%
DO	UN Equity DIAMOND OFFSHORE DRILLING	0.15%	25.00%	0.04%	9.13%	0.01%
DTV	UW Equity DIRECTV GROUP INC/THE	0.28%	15.30%	0.04%	0.00%	0.00%
DFS	UN Equity DISCOVER FINANCIAL SERVICES	0.05%	10.00%	0.01%	0.00%	0.00%
D	UN Equity DOMINION RESOURCES INC/VA	0.23%	6.20%	0.01%	5.38%	0.01%
DOV	UN Equity DOVER CORP	0.08%	14.00%	0.01%	3.00%	0.00%
DOW	UN Equity DOW CHEMICAL	0.21%	7.50%	0.02%	3.68%	0.01%
DHI	UN Equity DR HORTON INC	0.04%	8.25%	0.00%	1.89%	0.00%
DPS	UN Equity DR PEPPER SNAPPLE GROUP INC	0.07%	1.00%	0.00%	0.00%	0.00%
DTE	UN Equity DTE ENERGY COMPANY	0.06%	4.67%	0.00%	6.92%	0.00%
DD	UN Equity DU PONT (E.I.) DE NEMOURS	0.27%	4.43%	0.01%	6.57%	0.02%
DUK	UN Equity DUKE ENERGY CORP	0.22%	4.20%	0.01%	6.57%	0.01%
DNB	UN Equity DUN & BRADSTREET CORP	0.05%	10.00%	0.01%	0.00%	0.00%
DYN	UN Equity DYNEGY INC-CL A	0.01%	6.50%	0.00%	0.00%	0.00%
ETFC	UW Equity E*TRADE FINANCIAL CORP	0.01%	-2.00%	0.00%	0.00%	0.00%
EMN	UN Equity EASTMAN CHEMICAL COMPANY	0.03%	6.50%	0.00%	4.61%	0.00%
EK	UN Equity EASTMAN KODAK CO	0.01%	10.00%	0.00%	0.00%	0.00%
ETN	UN Equity EATON CORP	0.09%	9.25%	0.01%	4.29%	0.00%
EBAY	UW Equity EBAY INC	0.27%	13.74%	0.04%	0.00%	0.00%
ECL	UN Equity ECOLAB INC	0.11%	13.16%	0.01%	1.41%	0.00%
EIX	UN Equity EDISON INTERNATIONAL	0.12%	6.26%	0.01%	4.06%	0.00%
EP	UN Equity EL PASO CORP	0.08%	6.67%	0.01%	2.16%	0.00%
ERTS	UW Equity ELECTRONIC ARTS INC	0.08%	19.17%	0.02%	0.00%	0.00%
LLY	UN Equity ELI LILLY & CO	0.46%	5.88%	0.03%	5.94%	0.03%
EQ	UN Equity EMBARQ CORP	0.07%	-6.77%	-0.01%	6.41%	0.00%
EMC	UN Equity EMC CORP/MASS	0.31%	11.86%	0.04%	0.00%	0.00%
EMR	UN Equity EMERSON ELECTRIC CO	0.30%	10.13%	0.03%	3.99%	0.01%
ESV	UN Equity ENSCO INTERNATIONAL INC	0.06%	22.00%	0.01%	0.24%	0.00%
ETR	UN Equity ENTERGY CORP	0.18%	7.25%	0.01%	4.03%	0.01%
EOG	UN Equity EOG RESOURCES INC	0.22%	7.20%	0.02%	0.74%	0.00%
EQT	UN Equity EQT CORP	0.06%	12.00%	0.01%	2.53%	0.00%
EFX	UN Equity EQUIFAX INC	0.04%	9.00%	0.00%	0.00%	0.00%
EQR	UN Equity EQUITY RESIDENTIAL	0.07%	4.75%	0.00%	8.72%	0.01%
EL	UN Equity ESTEE LAUDER COMPANIES-CL A	0.04%	9.60%	0.00%	1.81%	0.00%
EXC	UN Equity EXELON CORP	0.39%	7.25%	0.03%	4.39%	0.02%
EXPE	UW Equity EXPEDIA INC	0.05%	14.50%	0.01%	0.00%	0.00%
EXPD	UW Equity EXPEDITORS INTL WASH INC	0.08%	16.85%	0.01%	1.05%	0.00%
ESRX	UW Equity EXPRESS SCRIPTS INC	0.21%	18.54%	0.04%	0.00%	0.00%
XOM	UN Equity EXXON MOBIL CORP	4.21%	3.28%	0.14%	2.29%	0.10%
FDO	UN Equity FAMILY DOLLAR STORES	0.05%	11.86%	0.01%	1.82%	0.00%
FAST	UW Equity FASTENAL CO	0.06%	11.60%	0.01%	2.08%	0.00%
FII	UN Equity FEDERATED INVESTORS INC-CL B	0.03%	9.00%	0.00%	3.82%	0.00%
FDX	UN Equity FEDEX CORP	0.19%	No Long-Term Growth		0.87%	0.00%
FIS	UN Equity FIDELITY NATIONAL INFORMATIO	0.05%	13.21%	0.01%	1.00%	0.00%
FITB	UW Equity FIFTH THIRD BANCORP	0.06%	6.38%	0.00%	0.59%	0.00%
FHN	UN Equity FIRST HORIZON NATIONAL CORP	0.03%	8.33%	0.00%	0.00%	0.00%
FE	UN Equity FIRSTENERGY CORP	0.14%	7.50%	0.01%	5.90%	0.01%
FISV	UW Equity FISERV INC	0.09%	13.33%	0.01%	0.00%	0.00%
FLIR	UW Equity FLIR SYSTEMS INC	0.04%	17.86%	0.01%	0.00%	0.00%
FLS	UN Equity FLOWSERVE CORP	0.05%	11.00%	0.01%	1.34%	0.00%
FLR	UN Equity FLUOR CORP	0.11%	17.20%	0.02%	1.14%	0.00%
FTI	UN Equity FMC TECHNOLOGIES INC	0.06%	15.00%	0.01%	0.00%	0.00%
F	UN Equity FORD MOTOR CO	0.22%	4.00%	0.01%	0.00%	0.00%
FRX	UN Equity FOREST LABORATORIES INC	0.08%	3.15%	0.00%	0.00%	0.00%
FO	UN Equity FORTUNE BRANDS INC	0.06%	6.75%	0.00%	2.67%	0.00%
FPL	UN Equity FPL GROUP INC	0.28%	9.48%	0.03%	3.34%	0.01%
BEN	UN Equity FRANKLIN RESOURCES INC	0.20%	8.67%	0.02%	1.10%	0.00%
FCX	UN Equity FREEPORT-MCMORAN COPPER	0.25%	3.75%	0.01%	0.24%	0.00%
FTR	UN Equity FRONTIER COMMUNICATIONS CORP	0.03%	2.20%	0.00%	14.56%	0.00%
GME	UN Equity GAMESTOP CORP-CLASS A	0.05%	15.80%	0.01%	0.00%	0.00%
GCI	UN Equity GANNETT CO	0.01%	3.50%	0.00%	4.17%	0.00%
GPS	UN Equity GAP INC/THE	0.13%	11.00%	0.01%	2.17%	0.00%
GD	UN Equity GENERAL DYNAMICS CORP	0.27%	8.48%	0.02%	2.58%	0.01%
GE	UN Equity GENERAL ELECTRIC CO	1.56%	8.81%	0.14%	6.74%	0.11%
GIS	UN Equity GENERAL MILLS INC	0.22%	7.69%	0.02%	3.35%	0.01%
GPC	UN Equity GENUINE PARTS CO	0.06%	7.25%	0.00%	4.79%	0.00%
GNW	UN Equity GENWORTH FINANCIAL INC-CL A	0.03%	11.50%	0.00%	0.00%	0.00%
GENZ	UW Equity GENZYME CORP	0.18%	18.87%	0.03%	0.00%	0.00%
GILD	UW Equity GILEAD SCIENCES INC	0.50%	16.12%	0.08%	0.00%	0.00%
GS	UN Equity GOLDMAN SACHS GROUP INC	0.85%	11.00%	0.09%	1.00%	0.01%
GR	UN Equity GOODRICH CORP	0.08%	12.38%	0.01%	1.90%	0.00%
GT	UN Equity GOODYEAR TIRE & RUBBER CO	0.03%	12.00%	0.00%	0.00%	0.00%
GOOG	UW Equity GOOGLE INC-CL A	1.21%	22.99%	0.28%	0.00%	0.00%
HRB	UN Equity H&R BLOCK INC	0.06%	9.00%	0.01%	4.04%	0.00%

Standard and Poor's 500 Index

Ticker	Name	Weight in the Index (%)	Long-Term Growth Estimate (%)	Cap-Weighted Long-Term Growth	Estimated 2009 Dividend Yield (%)	Cap-Weighted Dividend Yield
HAL	UN Equity HALLIBURTON CO	0.24%	3.67%	0.01%	1.64%	0.00%
HOG	UN Equity HARLEY-DAVIDSON INC	0.05%	9.00%	0.00%	3.65%	0.00%
HAR	UN Equity HARMAN INTERNATIONAL	0.01%	12.00%	0.00%	0.26%	0.00%
HRS	UN Equity HARRIS CORP	0.05%	13.80%	0.01%	2.65%	0.00%
HIG	UN Equity HARTFORD FINANCIAL SVCS GRP	0.04%	11.00%	0.00%	2.20%	0.00%
HAS	UN Equity HASBRO INC	0.04%	9.00%	0.00%	3.23%	0.00%
HCP	UN Equity HCP INC	0.07%	3.67%	0.00%	8.77%	0.01%
HCN	UN Equity HEALTH CARE REIT INC	0.05%	5.00%	0.00%	7.90%	0.00%
HSY	UN Equity HERSHEY CO/THE	0.07%	6.52%	0.00%	3.74%	0.00%
HES	UN Equity HESS CORP	0.21%	0.64%	0.00%	0.75%	0.00%
HPQ	UN Equity HEWLETT-PACKARD CO	1.08%	12.56%	0.14%	0.85%	0.01%
HNZ	UN Equity HJ HEINZ CO	0.14%	8.25%	0.01%	4.65%	0.01%
HD	UN Equity HOME DEPOT INC	0.49%	10.32%	0.05%	3.85%	0.02%
HON	UN Equity HONEYWELL INTERNATIONAL INC	0.29%	9.75%	0.03%	3.68%	0.01%
HRL	UN Equity HORMEL FOODS CORP	0.06%	11.00%	0.01%	2.24%	0.00%
HSP	UN Equity HOSPIRA INC	0.07%	12.16%	0.01%	0.00%	0.00%
HST	UN Equity HOST HOTELS & RESORTS INC	0.06%	4.00%	0.00%	3.06%	0.00%
HCBK	UN Equity HUDSON CITY BANCORP INC	0.08%	17.00%	0.01%	4.58%	0.00%
HUM	UN Equity HUMANA INC	0.06%	11.96%	0.01%	0.00%	0.00%
HBAN	UN Equity HUNTINGTON BANCSHARES INC	0.03%	4.50%	0.00%	0.98%	0.00%
IBM	UN Equity INTL BUSINESS MACHINES CORP	1.71%	8.90%	0.15%	1.86%	0.03%
ITW	UN Equity ILLINOIS TOOL WORKS	0.22%	10.67%	0.02%	3.38%	0.01%
RX	UN Equity IMS HEALTH INC	0.03%	10.75%	0.00%	0.96%	0.00%
IR	UN Equity INGERSOLL-RAND CO LTD-CL A	0.08%	7.00%	0.01%	2.27%	0.00%
TEG	UN Equity INTEGRYS ENERGY GROUP INC	0.03%	4.00%	0.00%	9.53%	0.00%
INTC	UN Equity INTEL CORP	1.09%	11.91%	0.13%	3.40%	0.04%
ICE	UN Equity INTERCONTINENTALEXCHANGE INC	0.10%	14.89%	0.01%	0.00%	0.00%
IPG	UN Equity INTERPUBLIC GROUP OF COS INC	0.03%	9.40%	0.00%	0.00%	0.00%
IFF	UN Equity INTL FLAVORS & FRAGRANCES	0.03%	8.00%	0.00%	3.15%	0.00%
IGT	UN Equity INTL GAME TECHNOLOGY	0.06%	11.15%	0.01%	2.49%	0.00%
IP	UN Equity INTERNATIONAL PAPER CO	0.07%	6.00%	0.00%	3.26%	0.00%
INTU	UN Equity INTUIT INC	0.11%	13.71%	0.02%	0.00%	0.00%
ISRG	UN Equity INTUITIVE SURGICAL INC	0.07%	16.40%	0.01%		0.00%
IVZ	UN Equity INVESCO LTD	0.08%	10.75%	0.01%	2.50%	0.00%
IRM	UN Equity IRON MOUNTAIN INC	0.07%	21.33%	0.01%	0.00%	0.00%
ITT	UN Equity ITT CORP	0.10%	12.75%	0.01%	1.68%	0.00%
JCP	UN Equity J.C. PENNEY CO INC	0.08%	11.50%	0.01%	2.94%	0.00%
JBL	UN Equity JABIL CIRCUIT INC	0.02%	18.00%	0.00%	4.04%	0.00%
JEC	UN Equity JACOBS ENGINEERING GROUP INC	0.06%	14.40%	0.01%	0.09%	0.00%
JNS	UN Equity JANUS CAPITAL GROUP INC	0.02%	8.00%	0.00%	0.28%	0.00%
JDSU	UN Equity JDS UNIPHASE CORP	0.02%	14.57%	0.00%		0.00%
SJM	UN Equity JM SMUCKER CO/THE	0.06%	8.25%	0.01%	3.23%	0.00%
JCI	UN Equity JOHNSON CONTROLS INC	0.15%	14.33%	0.02%	2.48%	0.00%
JNJ	UN Equity JOHNSON & JOHNSON	1.84%	8.06%	0.15%	3.46%	0.06%
JPM	UN Equity JPMORGAN CHASE & CO	1.55%	8.50%	0.13%	0.61%	0.01%
JNPR	UN Equity JUNIPER NETWORKS INC	0.14%	16.09%	0.02%	0.00%	0.00%
KBH	UN Equity KB HOME	0.01%	11.00%	0.00%	1.72%	0.00%
K	UN Equity KELLOGG CO	0.20%	8.27%	0.02%	3.17%	0.01%
KEY	UN Equity KEYCORP	0.05%	6.00%	0.00%	1.65%	0.00%
KMB	UN Equity KIMBERLY-CLARK CORP	0.26%	7.84%	0.02%	4.70%	0.01%
KIM	UN Equity KIMCO REALTY CORP	0.05%	5.23%	0.00%	9.97%	0.00%
KG	UN Equity KING PHARMACEUTICALS INC	0.03%	9.87%	0.00%	0.00%	0.00%
KLAC	UN Equity KLA-TENCOR CORPORATION	0.05%	13.00%	0.01%	2.35%	0.00%
KSS	UN Equity KOHLS CORP	0.16%	15.10%	0.02%	0.00%	0.00%
KFT	UN Equity KRAFT FOODS INC-CLASS A	0.44%	7.22%	0.03%	4.77%	0.02%
KR	UN Equity KROGER CO	0.17%	9.25%	0.02%	1.73%	0.00%
LLL	UN Equity L-3 COMMUNICATIONS HOLDINGS	0.10%	11.96%	0.01%	1.83%	0.00%
LH	UN Equity LABORATORY CRP OF AMER HLDGS	0.08%	12.60%	0.01%	0.00%	0.00%
LM	UN Equity LEGG MASON INC	0.04%	3.00%	0.00%	0.50%	0.00%
LEG	UN Equity LEGGETT & PLATT INC	0.03%	22.05%	0.01%		0.00%
LEN	UN Equity LENNAR CORP-CL A	0.01%	11.50%	0.00%	2.06%	0.00%
LUK	UN Equity LEUCADIA NATIONAL CORP	0.06%	No Long-Term Growth			0.00%
LXK	UN Equity LEXMARK INTERNATIONAL INC-A	0.01%	6.67%	0.00%	0.00%	0.00%
LIFE	UN Equity LIFE TECHNOLOGIES CORP	0.08%	12.75%	0.01%	0.00%	0.00%
LTD	UN Equity LIMITED BRANDS INC	0.05%	11.58%	0.01%	5.17%	0.00%
LNC	UN Equity LINCOLN NATIONAL CORP	0.05%	11.93%	0.01%	0.27%	0.00%
LLTC	UN Equity LINEAR TECHNOLOGY CORP	0.06%	14.29%	0.01%	3.81%	0.00%
LMT	UN Equity LOCKHEED MARTIN CORP	0.39%	9.80%	0.04%	2.71%	0.01%
L	UN Equity LOEWS CORP	0.14%	No Long-Term Growth		0.92%	0.00%
LO	UN Equity LORILLARD INC	0.14%	8.00%	0.01%		0.00%
LOW	UN Equity LOWE'S COS INC	0.34%	12.50%	0.04%	1.81%	0.01%
LSI	UN Equity LSI CORP	0.04%	2.75%	0.00%	0.00%	0.00%
MTB	UN Equity M & T BANK CORP	0.06%	4.38%	0.00%	6.24%	0.00%
M	UN Equity MACY'S INC	0.06%	9.60%	0.01%	1.76%	0.00%
MTW	UN Equity MANITOWOC COMPANY INC	0.01%	15.00%	0.00%	1.43%	0.00%
MRO	UN Equity MARATHON OIL CORP	0.26%	6.58%	0.02%	3.11%	0.01%
MAR	UN Equity MARRIOTT INTERNATIONAL-CL A	0.10%	12.85%	0.01%	1.45%	0.00%
MMC	UN Equity MARSH & MCLENNAN COS	0.13%	13.20%	0.02%	3.96%	0.01%
MI	UN Equity MARSHALL & ILSLEY CORP	0.02%	8.33%	0.00%	0.78%	0.00%

Standard and Poor's 500 Index

Ticker	Name	Weight in the Index (%)	Long-Term Growth Estimate (%)	Cap-Weighted Long-Term Growth	Estimated 2009 Dividend Yield (%)	Cap-Weighted Dividend Yield
MAS	UN Equity MASCO CORP	0.04%	6.00%	0.00%	3.90%	0.00%
MEE	UN Equity MASSEY ENERGY CO	0.02%	15.00%	0.00%	1.14%	0.00%
MA	UN Equity MASTERCARD INC-CLASS A	0.20%	18.55%	0.04%	0.37%	0.00%
MAT	UN Equity MATTEL INC	0.07%	9.00%	0.01%	4.74%	0.00%
MBI	UN Equity MBIA INC	0.01%	10.00%	0.00%	0.00%	0.00%
MFE	UN Equity MCAFEE INC	0.07%	13.64%	0.01%	0.00%	0.00%
MKC	UN Equity MCCORMICK & CO-NON VTG SHRS	0.04%	9.50%	0.00%	3.09%	0.00%
MCD	UN Equity MCDONALD'S CORP	0.77%	10.57%	0.08%	3.77%	0.03%
MHP	UN Equity MCGRAW-HILL COMPANIES INC	0.11%	3.30%	0.00%	2.98%	0.00%
MCK	UN Equity MCKESSON CORP	0.14%	12.00%	0.02%	1.03%	0.00%
MWV	UN Equity MEADWESTVACO CORP	0.03%	10.50%	0.00%	5.93%	0.00%
MHS	UN Equity MEDCO HEALTH SOLUTIONS INC	0.26%	16.75%	0.04%	0.00%	0.00%
MDT	UN Equity MEDTRONIC INC	0.45%	11.38%	0.05%	2.23%	0.01%
WFR	UN Equity MEMC ELECTRONIC MATERIALS	0.05%	13.43%	0.01%	0.00%	0.00%
MRK	UN Equity MERCK & CO. INC.	0.63%	3.78%	0.02%	6.17%	0.04%
MDP	UN Equity MEREDITH CORP	0.01%	No Long-Term Growth		3.37%	0.00%
MET	UN Equity METLIFE INC	0.29%	11.84%	0.03%	2.72%	0.01%
MCHP	UN Equity MICROCHIP TECHNOLOGY INC	0.05%	10.40%	0.01%	6.05%	0.00%
MU	UN Equity MICRON TECHNOLOGY INC	0.05%	7.33%	0.00%	0.00%	0.00%
MSFT	UN Equity MICROSOFT CORP	2.55%	10.97%	0.28%	2.02%	0.05%
MIL	UN Equity MILLIPORE CORP	0.05%	12.92%	0.01%	0.00%	0.00%
MOLX	UN Equity MOLEX INC	0.02%	13.00%	0.00%	3.84%	0.00%
TAP	UN Equity MOLSON COORS BREWING CO -B	0.08%	11.63%	0.01%	1.95%	0.00%
MON	UN Equity MONSANTO CO	0.54%	23.66%	0.13%	1.17%	0.01%
MWW	UN Equity MONSTER WORLDWIDE INC	0.02%	18.75%	0.00%	0.00%	0.00%
MCO	UN Equity MOODY'S CORP	0.08%	12.00%	0.01%	1.51%	0.00%
MS	UN Equity MORGAN STANLEY	0.45%	12.00%	0.05%	2.00%	0.01%
MOT	UN Equity MOTOROLA INC	0.17%	7.71%	0.01%	0.00%	0.00%
MUR	UN Equity MURPHY OIL CORP	0.13%	5.77%	0.01%	1.80%	0.00%
MYL	UN Equity MYLAN INC	0.05%	18.84%	0.01%	0.15%	0.00%
NBR	UN Equity NABORS INDUSTRIES LTD	0.06%	7.50%	0.00%	0.00%	0.00%
NDAQ	UN Equity NASDAQ OMX GROUP/THE	0.05%	13.03%	0.01%	0.00%	0.00%
NOV	UN Equity NATIONAL OILWELL VARCO INC	0.18%	7.00%	0.01%	0.00%	0.00%
NSM	UN Equity NATIONAL SEMICONDUCTOR CORP	0.04%	9.80%	0.00%	2.42%	0.00%
NTAP	UN Equity NETAPP INC	0.08%	12.00%	0.01%	0.00%	0.00%
NYT	UN Equity NEW YORK TIMES CO -CL A	0.01%	4.00%	0.00%	0.00%	0.00%
NWL	UN Equity NEWELL RUBBERMAID INC	0.04%	9.80%	0.00%	2.44%	0.00%
NEM	UN Equity NEWMONT MINING CORP	0.24%	13.43%	0.03%	0.95%	0.00%
NWSA	UN Equity NEWS CORP-CL A	0.21%	4.56%	0.01%	1.30%	0.00%
GAS	UN Equity NICOR INC	0.02%	4.15%	0.00%	5.40%	0.00%
NKE	UN Equity NIKE INC -CL B	0.26%	11.75%	0.03%	1.52%	0.00%
NI	UN Equity NISOURCE INC	0.04%	2.67%	0.00%	8.20%	0.00%
NBL	UN Equity NOBLE ENERGY INC	0.13%	4.75%	0.01%	1.06%	0.00%
JWN	UN Equity NORDSTROM INC	0.05%	10.76%	0.01%	3.36%	0.00%
NSC	UN Equity NORFOLK SOUTHERN CORP	0.17%	12.40%	0.02%	3.56%	0.01%
NU	UN Equity NORTHEAST UTILITIES	0.05%	6.80%	0.00%	4.34%	0.00%
NTRS	UN Equity NORTHERN TRUST CORP	0.15%	12.33%	0.02%	2.19%	0.00%
NOC	UN Equity NORTHROP GRUMMAN CORP	0.18%	8.69%	0.02%	3.61%	0.01%
NOVL	UN Equity NOVELL INC	0.02%	12.00%	0.00%	0.00%	0.00%
NVLS	UN Equity NOVELLUS SYSTEMS INC	0.02%	14.33%	0.00%	0.00%	0.00%
NUE	UN Equity NUCOR CORP	0.18%	5.00%	0.01%	3.00%	0.01%
NVDA	UN Equity NVIDIA CORP	0.07%	11.57%	0.01%	0.00%	0.00%
NYX	UN Equity NYSE EURONEXT	0.09%	12.00%	0.01%	4.43%	0.00%
ORLY	UN Equity O'REILLY AUTOMOTIVE INC	0.06%	18.26%	0.01%	0.00%	0.00%
OXY	UN Equity OCCIDENTAL PETROLEUM CORP	0.62%	4.06%	0.03%	2.01%	0.01%
ODP	UN Equity OFFICE DEPOT INC	0.01%	11.40%	0.00%	0.00%	0.00%
OMC	UN Equity OMNICOM GROUP	0.12%	8.43%	0.01%	1.90%	0.00%
ORCL	UN Equity ORACLE CORP	1.20%	12.31%	0.15%	0.40%	0.00%
OI	UN Equity OWENS-ILLINOIS INC	0.06%	11.30%	0.01%	0.00%	0.00%
PCAR	UN Equity PACCAR INC	0.14%	10.60%	0.01%	2.53%	0.00%
PTV	UN Equity PACTIV CORPORATION	0.03%	9.03%	0.00%	0.00%	0.00%
PLL	UN Equity PALL CORP	0.04%	11.33%	0.00%	2.08%	0.00%
PH	UN Equity PARKER HANNIFIN CORP	0.08%	10.25%	0.01%	2.13%	0.00%
PDCO	UN Equity PATTERSON COS INC	0.03%	14.75%	0.00%	0.00%	0.00%
PAYX	UN Equity PAYCHEX INC	0.12%	12.86%	0.02%	4.61%	0.01%
BTU	UN Equity PEABODY ENERGY CORP	0.10%	11.50%	0.01%	0.86%	0.00%
PBCT	UN Equity PEOPLE'S UNITED FINANCIAL	0.06%	9.80%	0.01%	4.02%	0.00%
POM	UN Equity PEPCO HOLDINGS INC	0.03%	4.67%	0.00%	8.35%	0.00%
PBG	UN Equity PEPSI BOTTLING GROUP INC	0.09%	7.07%	0.01%	2.15%	0.00%
PEP	UN Equity PEPSICO INC	1.00%	10.11%	0.10%	3.44%	0.03%
PKI	UN Equity PERKINELMER INC	0.02%	12.33%	0.00%	1.62%	0.00%
PFE	UN Equity PFIZER INC	1.19%	1.45%	0.02%	5.31%	0.06%
PCG	UN Equity P G & E CORP	0.17%	6.70%	0.01%	4.49%	0.01%
PM	UN Equity PHILIP MORRIS INTERNATIONAL	0.99%	9.33%	0.09%	5.17%	0.05%
PNW	UN Equity PINNACLE WEST CAPITAL	0.04%	4.67%	0.00%	7.30%	0.00%
PXD	UN Equity PIONEER NATURAL RESOURCES CO	0.04%	9.25%	0.00%	0.82%	0.00%
PBI	UN Equity PITNEY BOWES INC	0.05%	No Long-Term Growth		6.66%	0.00%
PCL	UN Equity PLUM CREEK TIMBER CO	0.06%	7.00%	0.00%	5.74%	0.00%
PNC	UN Equity PNC FINANCIAL SERVICES GROUP	0.21%	5.67%	0.01%	1.77%	0.00%

Standard and Poor's 500 Index

Ticker	Name	Weight in the Index (%)	Long-Term Growth Estimate (%)	Cap-Weighted Long-Term Growth	Estimated 2009 Dividend Yield (%)	Cap-Weighted Dividend Yield
RL	UN Equity POLO RALPH LAUREN CORP	0.03%	13.60%	0.00%	0.39%	0.00%
PPG	UN Equity PPG INDUSTRIES INC	0.09%	5.94%	0.01%	4.91%	0.00%
PPL	UN Equity PPL CORPORATION	0.15%	12.67%	0.02%	4.36%	0.01%
PX	UN Equity PRAXAIR INC	0.27%	9.08%	0.02%	2.24%	0.01%
PCP	UN Equity PRECISION CASTPARTS CORP	0.14%	13.67%	0.02%	0.15%	0.00%
PFG	UN Equity PRINCIPAL FINANCIAL GROUP	0.07%	11.63%	0.01%	1.70%	0.00%
PG	UN Equity PROCTER & GAMBLE CO/THE	1.76%	9.33%	0.16%	3.24%	0.06%
PGN	UN Equity PROGRESS ENERGY INC	0.12%	4.50%	0.01%	6.77%	0.01%
PGR	UN Equity PROGRESSIVE CORP	0.12%	7.38%	0.01%	0.86%	0.00%
PLD	UN Equity PROLOGIS	0.04%	2.50%	0.00%	8.63%	0.00%
PRU	UN Equity PRUDENTIAL FINANCIAL INC	0.20%	13.26%	0.03%	1.71%	0.00%
PEG	UN Equity PUBLIC SERVICE ENTERPRISE GP	0.19%	5.00%	0.01%	4.23%	0.01%
PSA	UN Equity PUBLIC STORAGE	0.13%	5.25%	0.01%	3.45%	0.00%
PHM	UN Equity PULTE HOMES INC	0.03%	11.50%	0.00%	0.00%	0.00%
QLGC	UN Equity QLOGIC CORP	0.02%	11.33%	0.00%	0.00%	0.00%
QCOM	UN Equity QUALCOMM INC	0.90%	15.38%	0.14%	1.45%	0.01%
DGX	UN Equity QUEST DIAGNOSTICS	0.12%	12.85%	0.02%	0.58%	0.00%
STR	UN Equity QUESTAR CORP	0.07%	6.00%	0.00%	1.46%	0.00%
Q	UN Equity QWEST COMMUNICATIONS INTL	0.09%	-0.13%	0.00%	7.69%	0.01%
RSH	UN Equity RADIOSHACK CORP	0.02%	8.88%	0.00%	1.75%	0.00%
RRC	UN Equity RANGE RESOURCES CORP	0.09%	10.75%	0.01%	0.35%	0.00%
RTN	UN Equity RAYTHEON COMPANY	0.22%	11.38%	0.02%	2.70%	0.01%
RF	UN Equity REGIONS FINANCIAL CORP	0.05%	0.60%	0.00%	3.27%	0.00%
RSG	UN Equity REPUBLIC SERVICES INC	0.11%	12.50%	0.01%	2.87%	0.00%
RAI	UN Equity REYNOLDS AMERICAN INC	0.13%	5.00%	0.01%	9.14%	0.01%
RHI	UN Equity ROBERT HALF INTL INC	0.04%	14.50%	0.01%	2.13%	0.00%
ROK	UN Equity ROCKWELL AUTOMATION INC	0.05%	6.33%	0.00%	3.85%	0.00%
COL	UN Equity ROCKWELL COLLINS INC.	0.08%	16.00%	0.01%	2.23%	0.00%
RDC	UN Equity ROWAN COMPANIES INC	0.03%	15.67%	0.00%	0.15%	0.00%
RRD	UN Equity RR DONNELLEY & SONS CO	0.03%	No Long-Term Growth			0.00%
R	UN Equity RYDER SYSTEM INC	0.02%	15.00%	0.00%	3.27%	0.00%
SWY	UN Equity SAFEWAY INC	0.11%	7.92%	0.01%	1.73%	0.00%
CRM	UN Equity SALESFORCE.COM INC	0.06%	32.18%	0.02%	0.00%	0.00%
SNDK	UN Equity SANDISK CORP	0.04%	15.00%	0.01%	0.00%	0.00%
SLE	UN Equity SARA LEE CORP	0.08%	7.24%	0.01%	4.83%	0.00%
SCG	UN Equity SCANA CORP	0.05%	5.42%	0.00%	5.94%	0.00%
SGP	UN Equity SCHERING-PLOUGH CORP	0.46%	11.43%	0.05%	1.14%	0.01%
SLB	UN Equity SCHLUMBERGER LTD	0.81%	6.60%	0.05%	1.49%	0.01%
SCHW	UN Equity SCHWAB (CHARLES) CORP	0.25%	20.00%	0.05%	1.38%	0.00%
SNI	UN Equity SCRIPPS NETWORKS INTER-CL A	0.04%	8.09%	0.00%	0.00%	0.00%
SEE	UN Equity SEALED AIR CORP	0.03%	3.87%	0.00%	2.79%	0.00%
SHLD	UN Equity SEARS HOLDINGS CORP	0.09%	0.00%	0.00%	0.00%	0.00%
SRE	UN Equity SEMPRA ENERGY	0.14%	6.36%	0.01%	3.18%	0.00%
SHW	UN Equity SHERWIN-WILLIAMS CO/THE	0.08%	6.44%	0.00%	2.63%	0.00%
SIAL	UN Equity SIGMA-ALDRICH	0.07%	8.59%	0.01%	1.17%	0.00%
SPG	UN Equity SIMON PROPERTY GROUP INC	0.17%	4.84%	0.01%	4.42%	0.01%
SLM	UN Equity SLM CORP	0.04%	13.00%	0.01%	0.00%	0.00%
SII	UN Equity SMITH INTERNATIONAL INC	0.07%	13.50%	0.01%	1.70%	0.00%
SNA	UN Equity SNAP-ON INC	0.02%	15.00%	0.00%	0.00%	0.00%
SO	UN Equity SOUTHERN CO	0.29%	5.25%	0.02%	5.67%	0.02%
LUV	UN Equity SOUTHWEST AIRLINES CO	0.06%	13.00%	0.01%	0.34%	0.00%
SWN	UN Equity SOUTHWESTERN ENERGY CO	0.17%	35.60%	0.06%	0.00%	0.00%
SE	UN Equity SPECTRA ENERGY CORP	0.13%	-2.18%	0.00%	5.99%	0.01%
S	UN Equity SPRINT NEXTEL CORP	0.17%	10.50%	0.02%	0.00%	0.00%
STJ	UN Equity ST JUDE MEDICAL INC	0.16%	13.97%	0.02%	0.00%	0.00%
SWK	UN Equity STANLEY WORKS/THE	0.03%	9.00%	0.00%	3.62%	0.00%
SPLS	UN Equity STAPLES INC	0.18%	13.89%	0.02%	1.49%	0.00%
SBUX	UN Equity STARBUCKS CORP	0.13%	16.57%	0.02%	0.00%	0.00%
HOT	UN Equity STARWOOD HOTELS & RESORTS	0.05%	8.00%	0.00%	2.54%	0.00%
STT	UN Equity STATE STREET CORP	0.27%	12.33%	0.03%	0.09%	0.00%
SRCL	UN Equity STERICYCLE INC	0.05%	16.75%	0.01%	0.00%	0.00%
SYK	UN Equity STRYKER CORP	0.19%	12.50%	0.02%	0.96%	0.00%
JAVA	UN Equity SUN MICROSYSTEMS INC	0.08%	5.00%	0.00%	0.00%	0.00%
SUN	UN Equity SUNOCO INC	0.04%	-3.63%	0.00%	4.87%	0.00%
STI	UN Equity SUNTRUST BANKS INC	0.09%	7.75%	0.01%	1.96%	0.00%
SVU	UN Equity SUPERVALU INC	0.04%	4.50%	0.00%	4.39%	0.00%
SYMC	UN Equity SYMANTEC CORP	0.16%	10.50%	0.02%	0.00%	0.00%
SY	UN Equity SYSCO CORP	0.17%	11.00%	0.02%	4.04%	0.01%
TROW	UN Equity T ROWE PRICE GROUP INC	0.13%	8.93%	0.01%	2.41%	0.00%
TGT	UN Equity TARGET CORP	0.36%	13.17%	0.05%	1.71%	0.01%
TE	UN Equity TECO ENERGY INC	0.03%	6.50%	0.00%	6.94%	0.00%
TLAB	UN Equity TELLABS INC	0.03%	8.50%	0.00%	0.00%	0.00%
THC	UN Equity TENET HEALTHCARE CORP	0.02%	7.67%	0.00%	0.00%	0.00%
TDC	UN Equity TERADATA CORP	0.05%	10.67%	0.01%	0.00%	0.00%
TER	UN Equity TERADYNE INC	0.01%	17.50%	0.00%	0.00%	0.00%
TSO	UN Equity TESORO CORP	0.02%	0.13%	0.00%	2.92%	0.00%
TXN	UN Equity TEXAS INSTRUMENTS INC	0.31%	14.71%	0.05%	2.07%	0.01%
TXT	UN Equity TEXTRON INC	0.03%	8.25%	0.00%	3.54%	0.00%
TMO	UN Equity THERMO FISHER SCIENTIFIC INC	0.21%	11.54%	0.02%	0.00%	0.00%

Standard and Poor's 500 Index

Ticker	Name	Weight in the Index (%)	Long-Term Growth Estimate (%)	Cap-Weighted Long-Term Growth	Estimated 2009 Dividend Yield (%)	Cap-Weighted Dividend Yield
TIF	UN Equity TIFFANY & CO	0.04%	12.20%	0.00%	2.67%	0.00%
TWC	UN Equity TIME WARNER CABLE	0.13%	14.92%	0.02%	0.00%	0.00%
TWX	UN Equity TIME WARNER INC	0.37%	10.59%	0.04%	2.94%	0.01%
TIE	UN Equity TITANIUM METALS CORP	0.02%	-5.00%	0.00%	0.00%	0.00%
TJX	UN Equity TJX COMPANIES INC	0.15%	12.57%	0.02%	1.41%	0.00%
TMK	UN Equity TORCHMARK CORP	0.04%	8.17%	0.00%	1.56%	0.00%
TSS	UN Equity TOTAL SYSTEM SERVICES INC	0.03%	10.88%	0.00%	2.05%	0.00%
TRV	UN Equity TRAVELERS COS INC/THE	0.30%	1.99%	0.01%	2.84%	0.01%
TEL	UN Equity TYCO ELECTRONICS LTD	0.11%	5.30%	0.01%		0.00%
TSN	UN Equity TYSON FOODS INC-CL A	0.05%	10.00%	0.00%	1.25%	0.00%
UNP	UN Equity UNION PACIFIC CORP	0.31%	14.20%	0.04%	2.09%	0.01%
UPS	UN Equity UNITED PARCEL SERVICE-CL B	0.41%	11.71%	0.05%	3.74%	0.02%
UTX	UN Equity UNITED TECHNOLOGIES CORP	0.62%	9.57%	0.06%	2.73%	0.02%
UNH	UN Equity UNITEDHEALTH GROUP INC	0.34%	9.89%	0.03%	0.05%	0.00%
UNM	UN Equity UNUM GROUP	0.06%	6.16%	0.00%	2.01%	0.00%
USB	UN Equity US BANCORP	0.41%	8.50%	0.03%	1.12%	0.00%
X	UN Equity UNITED STATES STEEL CORP	0.06%	4.00%	0.00%	1.06%	0.00%
VLO	UN Equity VALERO ENERGY CORP	0.12%	-1.26%	0.00%	3.41%	0.00%
VAR	UN Equity VARIAN MEDICAL SYSTEMS INC	0.06%	16.00%	0.01%	0.00%	0.00%
VTR	UN Equity VENTAS INC	0.05%	8.00%	0.00%	7.34%	0.00%
VRSN	UN Equity VERISIGN INC	0.04%	14.13%	0.01%	0.00%	0.00%
VZ	UN Equity VERIZON COMMUNICATIONS INC	1.02%	4.21%	0.04%	6.21%	0.06%
VFC	UN Equity VF CORP	0.08%	10.20%	0.01%	4.13%	0.00%
VIA/B	UN Equity VIACOM INC-CLASS B	0.15%	7.37%	0.01%	0.00%	0.00%
VNO	UN Equity VORNADO REALTY TRUST	0.09%	5.50%	0.01%	6.17%	0.01%
VMC	UN Equity VULCAN MATERIALS CO	0.07%	7.00%	0.00%	3.35%	0.00%
WMT	UN Equity WAL-MART STORES INC	2.29%	11.85%	0.27%	2.20%	0.05%
WAG	UN Equity WALGREEN CO	0.37%	12.45%	0.05%	1.45%	0.01%
DIS	UN Equity WALT DISNEY CO/THE	0.53%	6.14%	0.03%	1.50%	0.01%
WPO	UN Equity WASHINGTON POST -CL B	0.03%	No Long-Term Growth			0.00%
WMI	UN Equity WASTE MANAGEMENT INC	0.17%	10.33%	0.02%	3.87%	0.01%
WAT	UN Equity WATERS CORP	0.06%	8.90%	0.01%	0.00%	0.00%
WPI	UN Equity WATSON PHARMACEUTICALS INC	0.04%	11.25%	0.00%	0.00%	0.00%
WLP	UN Equity WELLPOINT INC	0.28%	11.06%	0.03%	0.00%	0.00%
WFC	UN Equity WELLS FARGO & CO	1.33%	14.00%	0.19%	2.11%	0.03%
WU	UN Equity WESTERN UNION CO	0.14%	12.23%	0.02%	0.24%	0.00%
WY	UN Equity WEYERHAEUSER CO	0.07%	5.75%	0.00%	3.42%	0.00%
WHR	UN Equity WHIRLPOOL CORP	0.04%	No Long-Term Growth		3.94%	0.00%
WFMI	UN Equity WHOLE FOODS MARKET INC	0.03%	14.80%	0.00%	0.00%	0.00%
WMB	UN Equity WILLIAMS COS INC	0.11%	12.50%	0.01%	2.79%	0.00%
WIN	UN Equity WINDSTREAM CORP	0.04%	-0.63%	0.00%	11.95%	0.01%
WEC	UN Equity WISCONSIN ENERGY CORP	0.06%	8.53%	0.00%	3.36%	0.00%
GWW	UN Equity WW GRAINGER INC	0.07%	11.11%	0.01%	2.08%	0.00%
WYE	UN Equity WYETH	0.72%	1.67%	0.01%	2.68%	0.02%
WYN	UN Equity WYNDHAM WORLDWIDE CORP	0.03%	15.00%	0.00%	1.38%	0.00%
WYNN	UN Equity WYNN RESORTS LTD	0.05%	2.37%	0.00%	0.00%	0.00%
XEL	UN Equity XCEL ENERGY INC	0.10%	5.48%	0.01%	5.50%	0.01%
XRX	UN Equity XEROX CORP	0.07%	-3.50%	0.00%	2.46%	0.00%
XLNX	UN Equity XILINX INC	0.07%	16.00%	0.01%	2.85%	0.00%
XL	UN Equity XL CAPITAL LTD -CLASS A	0.04%	-0.76%	0.00%	3.80%	0.00%
XTO	UN Equity XTO ENERGY INC	0.28%	2.83%	0.01%	1.22%	0.00%
YHOO	UN Equity YAHOO! INC	0.26%	15.00%	0.04%	0.00%	0.00%
YUM	UN Equity YUM! BRANDS INC	0.19%	12.02%	0.02%	2.43%	0.00%
ZMH	UN Equity ZIMMER HOLDINGS INC	0.11%	10.81%	0.01%	0.00%	0.00%
ZION	UN Equity ZIONS BANCORPORATION	0.02%	7.86%	0.00%	1.24%	0.00%

CAPM UTILIZING ALTERNATIVE MARKET RISK PREMIUM CALCULATIONS

Risk-Free Rate (30-Day Average on 30-Year Treasury Yield) 4.37%

Sharpe Ratio 9.83%
 Ex-Ante Market 7.88%
 Average Market Risk Premium 8.86%

		[1]	[2]	[3]	[4]	[5]	[6]
		Adjusted Betas					
Company	Ticker	Value Line	Bloomberg	Mean Beta	30-Yr Treasury	Market Risk Premium	CAPM k(e)
PROXY GROUP ELECTRIC UTILITIES							
American Electric Power	AEP	0.70	0.82	0.76	4.37%	8.86%	11.12%
Cleco Corp.	CNL	0.75	0.74	0.74	4.37%	8.86%	10.96%
Empire District Electric	EDE	0.70	0.76	0.73	4.37%	8.86%	10.83%
Entergy Corp.	ETR	0.70	0.69	0.70	4.37%	8.86%	10.54%
IDACORP, Inc.	IDA	0.70	0.73	0.71	4.37%	8.86%	10.69%
Pinnacle West Capital	PNW	0.70	0.80	0.75	4.37%	8.86%	11.00%
Portland General	POR	0.70	0.76	0.73	4.37%	8.86%	10.85%
Progress Energy	PGN	0.65	0.71	0.68	4.37%	8.86%	10.37%
Westar Energy	WR	0.75	0.81	0.78	4.37%	8.86%	11.28%
MEAN		0.71	0.76	0.73			10.85%

Notes

[1] Source: Value Line

[2] Source: Bloomberg

[3] Equals mean of Cols. [1], [2]

[4] Source: Bloomberg. Based on 30 day historical average.

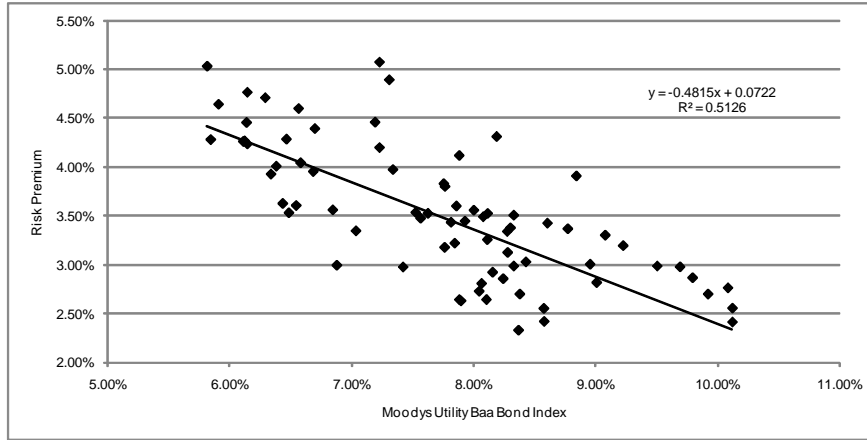
[5] Equals mean of Sharpe Ratio and Ex-Ante Market Risk Premium

[6] Equals Col. [4] +(Col. [3] x Col [5])

BOND YIELD RISK PREMIUM ANALYSIS

Quarter	Average Authorized Electric Utility ROE [1]	Average Moodys Utility Baa Bond Index [2]	Risk Premium (ROE-Moodys Utility Baa Index)
1990.1	12.62%	9.92%	2.70%
1990.2	12.85%	10.08%	2.77%
1990.3	12.54%	10.12%	2.42%
1990.4	12.68%	10.12%	2.56%
1991.1	12.66%	9.79%	2.87%
1991.2	12.67%	9.69%	2.98%
1991.3	12.49%	9.50%	2.99%
1991.4	12.42%	9.22%	3.20%
1992.1	12.38%	9.08%	3.30%
1992.2	11.83%	9.01%	2.82%
1992.3	12.03%	8.60%	3.43%
1992.4	12.14%	8.77%	3.37%
1993.1	11.84%	8.33%	3.51%
1993.2	11.64%	8.11%	3.53%
1993.3	11.15%	7.62%	3.53%
1993.4	11.04%	7.56%	3.48%
1994.1	11.07%	7.84%	3.22%
1994.2	11.13%	8.57%	2.56%
1994.3	12.75%	8.84%	3.91%
1994.4	11.24%	9.25%	1.99%
1995.1	11.96%	8.95%	3.01%
1995.2	11.32%	8.33%	2.99%
1995.3	11.37%	8.11%	3.26%
1995.4	11.58%	7.75%	3.83%
1996.1	11.46%	7.86%	3.60%
1996.2	11.46%	8.43%	3.03%
1996.3	10.70%	8.37%	2.33%
1996.4	11.56%	8.00%	3.56%
1997.1	11.08%	8.15%	2.93%
1997.2	11.62%	8.27%	3.34%
1997.3	12.00%	7.88%	4.12%
1997.4	11.06%	7.52%	3.54%
1998.1	11.31%	7.34%	3.98%
1998.2	12.20%	7.31%	4.89%
1998.3	11.65%	7.19%	4.46%
1998.4	12.30%	7.23%	5.07%
1999.1	10.40%	7.42%	2.98%
1999.2	10.94%	7.76%	3.18%
1999.3	10.75%	8.10%	2.65%
1999.4	11.10%	8.24%	2.86%
2000.1	11.08%	8.38%	2.70%
2000.2	11.00%	8.58%	2.42%
2000.3	11.68%	8.30%	3.38%
2000.4	12.50%	8.19%	4.31%
2001.1	11.38%	7.93%	3.45%
2001.2	10.88%	8.06%	2.81%
2001.3	10.78%	8.04%	2.73%
2001.4	11.57%	8.08%	3.49%
2002.1	10.05%	8.21%	1.84%
2002.2	11.41%	8.28%	3.13%
2002.3	11.25%	7.81%	3.44%
2002.4	11.57%	7.76%	3.80%
2003.1	11.43%	7.23%	4.20%
2003.2	11.16%	6.56%	4.60%
2003.3	9.88%	6.88%	3.00%
2003.4	11.09%	6.70%	4.40%
2004.1	11.00%	6.29%	4.71%
2004.2	10.64%	6.68%	3.96%
2004.3	10.75%	6.46%	4.29%
2004.4	10.91%	6.14%	4.77%
2005.1	10.55%	5.91%	4.64%
2005.2	10.13%	5.84%	4.28%
2005.3	10.85%	5.81%	5.03%
2005.4	10.59%	6.14%	4.46%
2006.1	10.38%	6.14%	4.24%
2006.2	10.63%	6.58%	4.05%
2006.3	10.06%	6.43%	3.63%
2006.4	10.37%	6.11%	4.26%
2007.1	10.39%	6.12%	4.27%
2007.2	10.27%	6.34%	3.93%
2007.3	10.02%	6.48%	3.53%
2007.4	10.39%	6.38%	4.01%
2008.1	10.15%	6.54%	3.61%
2008.2	10.41%	6.84%	3.56%
2008.3	10.38%	7.03%	3.35%
2008.4	10.38%	8.56%	1.82%
2009.1	10.53%	7.88%	2.65%
2009.2	10.53%	7.90%	2.63%
Mean	11.26%	7.79%	3.46%

BOND YIELD RISK PREMIUM ANALYSIS



Y= Risk Premium
 X= Moody's Baa Bond Yield

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.715935546
R Square	0.512563706
Adjusted R Square	0.50615007
Standard Error	0.005271006
Observations	78

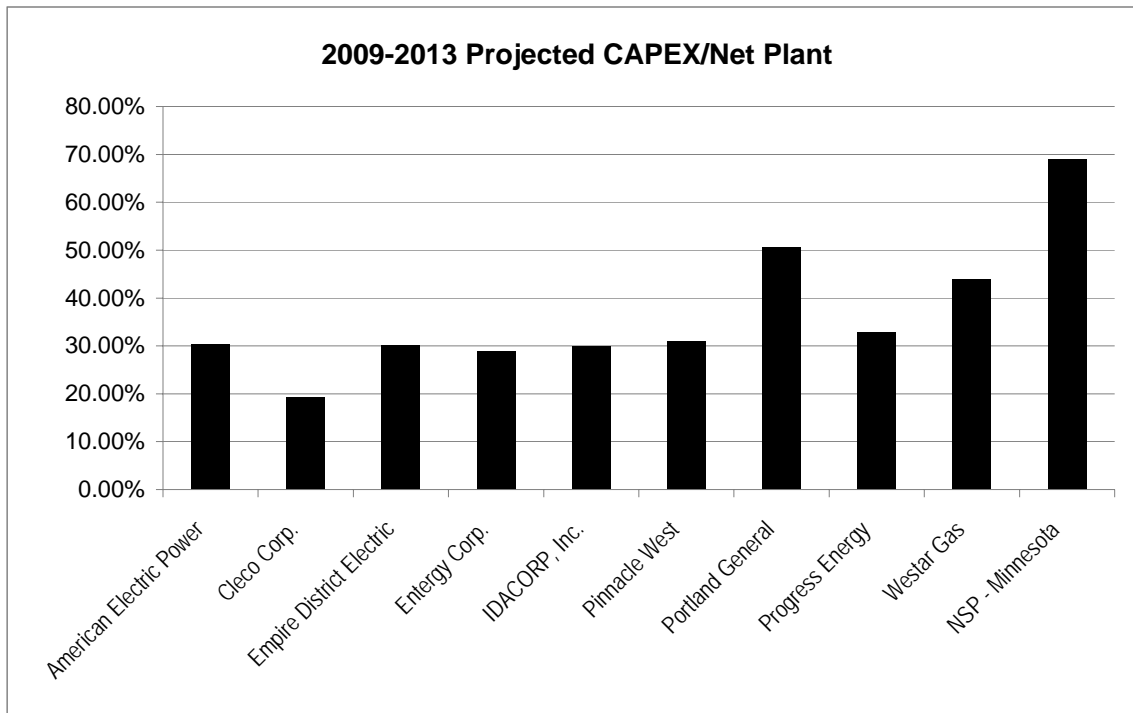
ANOVA					
	df	SS	MS	F	Significance F
Regression	1	0.0022204	0.0022204	79.9178110	0.0000000
Residual	76	0.0021115	0.0000278		
Total	77	0.0043319			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.0721573	0.0042400	17.0183789	0.0000000	0.0637127	0.0806019	0.0637127	0.0806019
X Variable 1	-0.4815482	0.0538664	-8.9396762	0.0000000	-0.5888325	-0.3742640	-0.5888325	-0.3742640

Scenario (Moodys Utility Baa Bond Index)	Moodys Utility Baa Bond Rate	Risk Premium [3]	ROE
30-day average as of 6/15/2009	7.66%	3.53%	11.19%
90-day average as of 6/15/2009	7.84%	3.44%	11.28%
MEAN		3.48%	11.23%

NOTES

- [1] Source: Regulatory Research Associates, Rate Case Statistics, accessed June 16, 2009.
 [2] Source: Bloomberg Professional Service. Quarterly bond yields are the average of each month's average yield.
 [3] Independent variable = Moody's Utility Baa Bond Yield; Dependent Variable = Risk Premium.



Projected CAPEX / 2007 Net Plant

<u>Company</u>	<u>2009-2014^[1]</u>
American Electric Power	30.36%
Cleco Corp.	19.37%
Empire District Electric	30.15%
Entergy Corp.	28.93%
IDACORP, Inc.	29.95%
Pinnacle West	31.03%
Portland General	50.63%
Progress Energy	32.83%
Westar Gas	43.97%
NSP - Minnesota	69.07%

Notes:

^[1] NSP-MN Capital expenditures are projected for 2009-2012, however Value Line projects capital expenditures for 2009, 2010, and 2012-14.

Source: Value Line, Xcel Energy and NSP-MN 2008 SEC Forms 10-K, and Company data.

PROXY GROUP MEDIAN MARKET CAPITALIZATION				
Company Name (Ticker)	Ticker	Customers		Market to
		(Mil) [1]	Market Cap (\$Bil) [2]	Book Ratio [2]
American Electric Power	AEP	5.2	\$ 13.04	1.02
Cleco Corp.	CNL	0.3	\$ 1.33	1.26
Empire Dist. Elec.	EDE	0.2	\$ 0.56	1.05
Entergy Corp.	ETR	2.6	\$ 14.95	1.73
IDACORP, Inc.	IDA	0.5	\$ 1.18	0.90
Pinnacle West Capital	PNW	1.1	\$ 2.93	0.93
Portland General	POR	0.8	\$ 1.44	0.94
Progress Energy	PGN	3.1	\$ 10.23	1.05
Westar Energy	WR	0.7	\$ 1.97	0.90
MEDIAN		0.8	\$ 1.97	1.02
MEAN		1.6	\$ 5.29	1.08

Xcel Energy SD Implied Market Capitalization			
Xcel Energy-SD Equity (\$ Millions)			145.95 [3]
Median Market to Book for Proxy Group	\$		1.02
Xcel Energy-SD Implied Market Capitalization (\$ Millions)			148.84

NOTES

[1] Includes electric and gas. Source: Company Form 10-Ks.

[2] Source: Bloomberg as of June 15, 2009

[3] Equals South Dakota Ratebase multiplied by Requested Equity Ratio

Proxy Group Equity Ratio

Summary Data

Company Name	Ticker	2009 Q1	2008 Q4	2008 Q3	2008 Q2	2008 Q1	2007 Q4	2007 Q3	2007 Q2	Overall Average
American Electric Power	AEP	47.93%	48.75%	48.49%	48.09%	48.33%	48.00%	48.74%	48.56%	48.36%
Cleco Corp.	CNL	46.66%	45.07%	47.49%	46.53%	49.25%	58.50%	58.65%	55.45%	50.95%
Empire District Electric	EDE	49.04%	52.37%	52.84%	53.42%	57.66%	57.44%	54.81%	54.31%	53.99%
Entergy Corp.	ETR	47.47%	48.38%	46.98%	47.87%	46.97%	47.24%	50.06%	49.55%	48.07%
IDACORP, Inc.	IDA	46.70%	48.49%	47.84%	49.62%	49.56%	49.36%	48.64%	48.40%	48.58%
Pinnacle West Capital	PNW	48.86%	53.81%	54.81%	55.34%	53.81%	53.68%	53.92%	52.76%	53.38%
Portland General	POR	51.68%	50.90%	50.89%	50.92%	51.42%	50.06%	51.28%	53.93%	51.39%
Progress Energy	PGN	50.38%	50.39%	50.04%	47.65%	50.55%	50.67%	50.30%	50.89%	50.11%
Westar Energy	WR	61.56%	61.48%	63.88%	63.29%	65.12%	64.55%	68.10%	67.24%	64.40%
Proxy Group Average										52.14%

Underlying Data

Company Name	Ticker	Equity Ratio							
		2009 Q1	2008 Q4	2008 Q3	2008 Q2	2008 Q1	2007 Q4	2007 Q3	2007 Q2
AEP Texas Central Company	AEP	44.26%	43.96%	42.70%	42.09%	37.40%	40.57%	39.84%	38.16%
AEP Texas North Company	AEP	46.90%	46.90%	47.47%	47.34%	55.42%	55.42%	55.97%	50.87%
Appalachian Power Company	AEP	41.04%	43.00%	43.52%	42.97%	40.03%	42.62%	40.48%	44.61%
Columbus Southern Power Company	AEP	46.39%	46.40%	47.26%	45.93%	49.00%	47.33%	48.63%	48.84%
Indiana Michigan Power Company	AEP	43.20%	51.18%	51.09%	50.48%	49.14%	47.10%	46.80%	46.19%
Kentucky Power Company	AEP	48.92%	48.74%	47.70%	47.17%	46.70%	46.32%	36.97%	45.89%
Kingsport Power Company	AEP	55.05%	55.59%	55.66%	56.38%	55.90%	56.03%	55.75%	55.01%
Ohio Power Company	AEP	48.16%	47.41%	48.97%	50.74%	49.37%	48.03%	47.34%	46.54%
Public Service Company of Colorado	AEP	45.02%	45.99%	45.69%	44.75%	42.63%	41.30%	50.10%	47.44%
Southwestern Electric Power Company	AEP	47.39%	46.83%	42.67%	41.63%	47.58%	46.25%	52.75%	48.13%
Wheeling Power Co	AEP	60.92%	60.29%	60.62%	59.50%	58.44%	57.06%	61.53%	62.46%
Cleco Power LLC	CNL	46.66%	45.07%	47.49%	46.53%	49.25%	58.50%	58.65%	55.45%
Empire District Electric Company	EDE	49.04%	52.37%	52.84%	53.42%	57.66%	57.44%	54.81%	54.31%
Entergy Arkansas, Inc.	ETR	48.51%	48.37%	49.56%	53.94%	53.54%	53.31%	53.44%	54.59%
Entergy Gulf States Louisiana	ETR	40.74%	39.40%	37.34%	37.02%	35.62%	35.61%	49.77%	49.07%
Entergy Louisiana, LLC	ETR	55.73%	55.18%	51.27%	55.52%	57.80%	57.51%	57.42%	56.18%
Entergy Mississippi, Inc.	ETR	50.81%	50.72%	51.83%	50.90%	50.29%	50.42%	50.28%	49.63%
Entergy New Orleans, Inc.	ETR	46.04%	45.86%	45.52%	41.62%	40.29%	39.36%	39.40%	38.26%
Entergy Texas, Inc.	ETR	43.02%	50.72%	46.36%	48.25%	44.31%			
Idaho Power Co.	IDA	46.70%	48.49%	47.84%	49.62%	49.56%	49.36%	48.64%	48.40%
Arizona Public Service Company	PNW	48.86%	53.81%	54.81%	55.34%	53.81%	53.68%	53.92%	52.76%
Portland General Electric Co	POR	51.68%	50.90%	50.89%	50.92%	51.42%	50.06%	51.28%	53.93%
Carolina Power & Light Company	PGN	53.96%	55.70%	55.37%	54.15%	51.43%	52.82%	52.51%	49.07%
Florida Power Corporation	PGN	46.79%	45.08%	44.72%	41.15%	49.67%	48.53%	48.08%	52.72%
Kansas Gas and Electric Company	WR	65.33%	65.35%	65.25%	64.72%	70.90%	70.84%	79.01%	78.57%
Westar Energy (KPL)	WR	57.79%	57.62%	62.51%	61.86%	59.34%	58.26%	57.19%	55.91%

Proxy Group Long-Term Debt Ratio

Summary Data

Company Name	Ticker	2009 Q1	2008 Q4	2008 Q3	2008 Q2	2008 Q1	2007 Q4	2007 Q3	2007 Q2	Overall Average
American Electric Power	AEP	52.07%	51.25%	51.51%	51.91%	51.67%	52.00%	51.26%	51.44%	51.64%
Cleco Corp.	CNL	53.34%	54.93%	52.51%	53.47%	50.75%	41.50%	41.35%	44.55%	49.05%
Empire District Electric	EDE	50.96%	47.63%	47.16%	46.58%	42.34%	42.56%	45.19%	45.69%	46.01%
Entergy Corp.	ETR	52.53%	51.62%	53.02%	52.13%	53.03%	52.76%	49.94%	50.45%	51.93%
IDACORP, Inc.	IDA	53.30%	51.51%	52.16%	50.38%	50.44%	50.64%	51.36%	51.60%	51.42%
Pinnacle West Capital	PNW	51.14%	46.19%	45.19%	44.66%	46.19%	46.32%	46.08%	47.24%	46.62%
Portland General	POR	48.32%	49.10%	49.11%	49.08%	48.58%	49.94%	48.72%	46.07%	48.61%
Progress Energy	PGN	49.62%	49.61%	49.96%	52.35%	49.45%	49.33%	49.70%	49.11%	49.89%
Westar Energy	WR	38.44%	38.52%	36.12%	36.71%	34.88%	35.45%	31.90%	32.76%	35.60%
Proxy Group Average										47.86%

Underlying Data

Company Name	Ticker	Long Term Debt Ratio							
		2009 Q1	2008 Q4	2008 Q3	2008 Q2	2008 Q1	2007 Q4	2007 Q3	2007 Q2
AEP Texas Central Company	AEP	55.74%	56.04%	57.30%	57.91%	62.60%	59.43%	60.16%	61.84%
AEP Texas North Company	AEP	53.10%	53.10%	52.53%	52.66%	44.58%	44.58%	44.03%	49.13%
Appalachian Power Company	AEP	58.96%	57.00%	56.48%	57.03%	59.97%	57.38%	59.52%	55.39%
Columbus Southern Power Company	AEP	53.61%	53.60%	52.74%	54.07%	51.00%	52.67%	51.37%	51.16%
Indiana Michigan Power Company	AEP	56.80%	48.82%	48.91%	49.52%	50.86%	52.90%	53.20%	53.81%
Kentucky Power Company	AEP	51.08%	51.26%	52.30%	52.83%	53.30%	53.68%	63.03%	54.11%
Kingsport Power Company	AEP	44.95%	44.41%	44.34%	43.62%	44.10%	43.97%	44.25%	44.99%
Ohio Power Company	AEP	51.84%	52.59%	51.03%	49.26%	50.63%	51.97%	52.66%	53.46%
Public Service Company of Oklahoma	AEP	54.98%	54.01%	54.31%	55.25%	57.37%	58.70%	49.90%	52.56%
Southwestern Electric Power Company	AEP	52.61%	53.17%	57.33%	58.37%	52.42%	53.75%	47.25%	51.87%
Wheeling Power Co	AEP	39.08%	39.71%	39.38%	40.50%	41.56%	42.94%	38.47%	37.54%
Cleco Power LLC	CNL	53.34%	54.93%	52.51%	53.47%	50.75%	41.50%	41.35%	44.55%
Empire District Electric Company	EDE	50.96%	47.63%	47.16%	46.58%	42.34%	42.56%	45.19%	45.69%
Entergy Arkansas, Inc.	ETR	51.49%	51.63%	50.44%	46.06%	46.46%	46.69%	46.56%	45.41%
Entergy Gulf States Louisiana, LLC	ETR	59.26%	60.60%	62.66%	62.98%	64.38%	64.39%	50.23%	50.93%
Entergy Louisiana, LLC	ETR	44.27%	44.82%	48.73%	44.48%	42.20%	42.49%	42.58%	43.82%
Entergy Mississippi, Inc.	ETR	49.19%	49.28%	48.17%	49.10%	49.71%	49.58%	49.72%	50.37%
Entergy New Orleans, Inc.	ETR	53.96%	54.14%	54.48%	58.38%	59.71%	60.64%	60.60%	61.74%
Entergy Texas, Inc.	ETR	56.98%	49.28%	53.64%	51.75%	55.69%			
Idaho Power Co.	IDA	53.30%	51.51%	52.16%	50.38%	50.44%	50.64%	51.36%	51.60%
Arizona Public Service Company	PNW	51.14%	46.19%	45.19%	44.66%	46.19%	46.32%	46.08%	47.24%
Portland General Electric Company	POR	48.32%	49.10%	49.11%	49.08%	48.58%	49.94%	48.72%	46.07%
Carolina Power & Light Company	PGN	46.04%	44.30%	44.63%	45.85%	48.57%	47.18%	47.49%	50.93%
Florida Power Corporation	PGN	53.21%	54.92%	55.28%	58.85%	50.33%	51.47%	51.92%	47.28%
Kansas Gas and Electric Company	WR	34.67%	34.65%	34.75%	35.28%	29.10%	29.16%	20.99%	21.43%
Westar Energy (KPL)	WR	42.21%	42.38%	37.49%	38.14%	40.66%	41.74%	42.81%	44.09%

Company Proposed Capital Structure

Northern States Power Company Minnesota - South Dakota
 Capital Structure
 13 Month Average for 2008
 (\$000's)

Line No	(A) Description	(B) Amount	(C) Percentage Of Total
1	Long Term Debt	2,820,676	48.37%
2	Common Equity	3,010,827	51.63%
		<u>5,831,503</u>	<u>100.00%</u>

- (1) Statement G Working Papers Page 2 of 5 (see Exhibit__(RBH-1), Schedule 9
 (2) Statement G Working Papers Page 3 of 5 (reproduced below)

Northern States Power Company Minnesota - South Dakota
 Proposed Test Year - Cost of Capital
 13 Month Average for 2008
 Common Equity
 (\$000's)

Month	Common Equity Outstanding	Non-Regulated Subsidiaries*	Net Common Equity
<u>ACTUAL YEAR 2008</u>			
2007 Dec	\$2,815,629	\$1,470	\$2,814,159
2008 Jan	\$2,985,936	\$1,463	\$2,984,473
Feb	\$2,946,995	\$1,453	\$2,945,542
Mar	\$2,970,775	\$1,444	\$2,969,331
Apr	\$2,980,839	\$1,435	\$2,979,404
May	\$2,992,502	\$1,444	\$2,991,058
Jun	\$2,977,456	\$1,417	\$2,976,039
Jul	\$3,060,925	\$1,391	\$3,059,534
Aug	\$3,099,862	\$1,380	\$3,098,482
Sep	\$3,067,764	\$1,367	\$3,066,397
Oct	\$3,082,233	\$1,356	\$3,080,877
Nov	\$3,112,218	\$1,344	\$3,110,874
Dec	<u>\$3,065,905</u>	<u>\$1,328</u>	<u>\$3,064,577</u>
13 Month Average	\$3,012,234	\$1,407	\$3,010,827

* Subsidiaries include United Power and Land.

ACTUAL YEAR 2008 1/

Description	Coupon Rate	Issue Date	Maturity Date	13 Month Avg. Bal.				Total 4/				Capital Cost %	5/		6/		
				Amount	Premium	Discount	Expense	Capital Employed	Interest Charge	Premium Amortization	Discount Amortization		Expense Amortization	Cost of Capital	Moody's Utility A-Rated Bond Index	Weighted Moody's Utility A-Rated Bond Index	
First Mortgage Bonds																	
Series due July 1, 2025 (FMB)	7.1250	Jul-95	Jul-25	250,000	-	(2,330)	1,898	250,432	17,813	-	78	64	17,954	7.17%	7.53%	0.67%	
Series due March 1, 2028 (FMB)	6.5000	Mar-98	Mar-28	150,000	-	(1,761)	1,475	150,286	9,750	-	59	49	9,858	6.56%	7.17%	0.38%	
Becker (92A) due March 1, 2019 (PC) (FMB) Series N	6.5430	Mar-92	Mar-19	27,900	-	-	993	26,907	1,825	-	-	53	1,878	6.98%	8.97%	0.09%	
Becker (93A) due September 1, 2019 (PC) (FMB) Series C	6.5430	Sep-93	Sep-19	50,000	-	-	1,073	48,927	3,272	-	-	56	3,327	6.80%	7.10%	0.12%	
Becker (93B) due September 1, 2019 (PC) (FMB) Series F	6.5430	Sep-93	Sep-19	50,000	-	-	1,057	48,943	3,272	-	-	55	3,326	6.80%	7.10%	0.12%	
City of Becker due April 1, 2030 (PC)	6.5430	Apr-00	Apr-30	69,000	-	-	348	68,652	4,515	-	-	45	4,560	6.64%	8.18%	0.20%	
Series Due August 28, 2012 (FMB)	8.0000	Aug-02	Aug-12	450,000	-	-	5,687	444,313	36,000	-	450	120	36,571	8.23%	7.21%	1.14%	
Series Due August 1, 2010 (FMB)	4.7500	Aug-03	Aug-10	175,000	-	(450)	1,684	173,765	8,313	-	64	242	8,618	4.96%	6.82%	0.42%	
Series Due July 15, 2035 (FMB)	5.2500	Jul-05	Jul-35	250,000	-	(485)	3,032	247,453	13,125	-	16	101	13,243	5.35%	5.58%	0.49%	
Series Due June 1, 2036 (FMB)	6.2500	May-06	Jun-36	400,000	16,202	(1,404)	4,877	412,729	25,000	545	35	175	24,664	5.98%	6.40%	0.94%	
Series Due July 1, 2037 (FMB)	6.2000	Jun-07	Jul-37	350,000	1,894	(1,988)	4,337	349,545	21,700	189	66	145	21,722	6.21%	6.15%	0.76%	
Series Due March 1, 2018 (FMB) 2/	5.2500	Mar-08	Mar-18	384,615	(5,167)	(1,520)	4,815	376,153	20,192	(417)	121	380	21,110	5.61%	6.18%	0.82%	
Other Debt																	
MN Senior Notes due August 1, 2009	6.8750	Jul-99	Aug-09	250,000	-	(1,803)	1,925	249,878	17,188	-	180	249	17,616	7.05%	7.66%	0.68%	
Public Improvement	var	var	var	69	-	-	-	69	2	-	-	-	2	3.22%			
TOTAL DEBT				2,856,584	12,929	(11,740)	33,202	2,848,052	181,965	317	1,069	1,733	184,450	6.48%			
Unamortized Loss on Reacquired Debt								(27,376)					2,584				
Fees on 5-year Credit Facility 3/								-					204				
GRAND TOTAL								2,820,676					187,238	6.64%		6.83%	

COST OF DEBT

Notes:

- 1/ Long Term Debt not adjusted for MERP. Becker Bond Interest Rate adjusted from 8.500% to 6.543% (1.957% Adjustment)
- 2/ NSPM issued a \$500M First Mortgage Bond 3/18/2008 at 5.25%. The \$384.6M balance represents 10 of 13 months average balance.
- 3/ Fees associated with the 5 Year Credit Facility are amortized over the life of the facility and are incorporated into the long-term debt rate.
- 4/ January 1, 2008 through December 31, 2008.
- 5/ Moody's A- Rated Index - Yield of the Moody's A-Rated Utility Bond Index on the Date of Issue
- 6/ Weighted Moody's A-Rated Utility Bond Index - defined as the Moody's A-Rated Bond Index multiplied by the ratio of principal outstanding for each issue and the total outstanding

Source: Statement G