

AEP Texas Central Company
Revised Szerszen Risk Premium Analysis (Electric)
Projected Interest Rates

	MOODY'S AVERAGE PUBLIC UTILITY BOND YIELD (1)	AUTHORIZED ELECTRIC RETURNS (2)	INDICATED RISK PREMIUM
1997	7.63%	11.40%	3.77%
1998	7.00%	11.66%	4.66%
1999	7.55%	10.77%	3.22%
2000	8.14%	11.43%	3.29%
2001	7.72%	11.09%	3.37%
2002	7.53%	11.16%	3.63%
2003	6.61%	10.97%	4.36%
2004	6.20%	10.75%	4.55%
2005	5.67%	10.54%	4.87%
2006	6.08%	10.36%	4.28%
AVERAGE	7.01%	11.01%	4.00%

INDICATED COST OF EQUITY

PROJECTED TRIPLE-B UTILITY BOND YIELD*	6.60%
MOODY'S AVG ANNUAL YIELD DURING STUDY	7.01%
INTEREST RATE DIFFERENCE	-0.41%

INTEREST RATE CHANGE COEFFICIENT	-64.93%
ADJUSTMENT TO AVG RISK PREMIUM	0.27%

BASIC RISK PREMIUM	4.00%
INTEREST RATE ADJUSTMENT	0.27%
EQUITY RISK PREMIUM	4.27%

PROJECTED TRIPLE-B UTILITY BOND YIELD*	6.60%
INDICATED EQUITY RETURN	10.87%

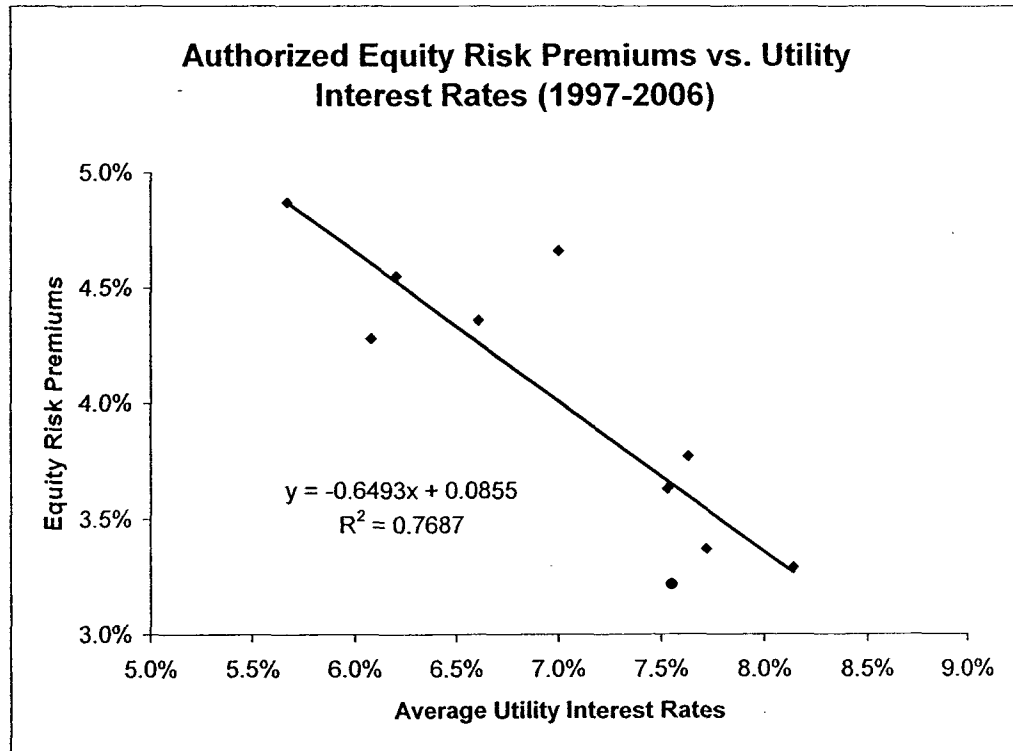
Sources:

(1) Moody's Investors Service

(2) Regulatory Focus, Regulatory Research Associates, Inc.

*The projected triple-B bond yield is equal to the projected 30-year Treasury bond rate (5.3 percent) from S&P's Trends & Projections (Exhibit SCH-2R) plus 130 basis points. The average triple-B spread over Treasuries for 2006 was 132 basis points.

AEP Texas Central Company
Revised Szerszen Risk Premium Analysis (Electric)
Projected Interest Rates



AEP Texas Central Company
Revised Szerszen Risk Premium Analysis (Gas)
Current Interest Rates

	MOODY'S AVERAGE PUBLIC UTILITY BOND YIELD (1)	AUTHORIZED GAS RETURNS (2)	INDICATED RISK PREMIUM
1997	7.63%	11.29%	3.66%
1998	7.00%	11.51%	4.51%
1999	7.55%	10.66%	3.11%
2000	8.14%	11.39%	3.25%
2001	7.72%	10.95%	3.23%
2002	7.53%	11.03%	3.50%
2003	6.61%	10.99%	4.38%
2004	6.20%	10.59%	4.39%
2005	5.67%	10.46%	4.79%
2006	6.08%	10.44%	4.36%
AVERAGE	7.01%	10.93%	3.92%

INDICATED COST OF EQUITY

CURRENT TRIPLE-B UTILITY BOND YIELD	6.10%
MOODY'S AVG ANNUAL YIELD DURING STUDY	7.01%
INTEREST RATE DIFFERENCE	-0.91%

INTEREST RATE CHANGE COEFFICIENT	-67.85%
ADJUSTMENT TO AVG RISK PREMIUM	0.62%

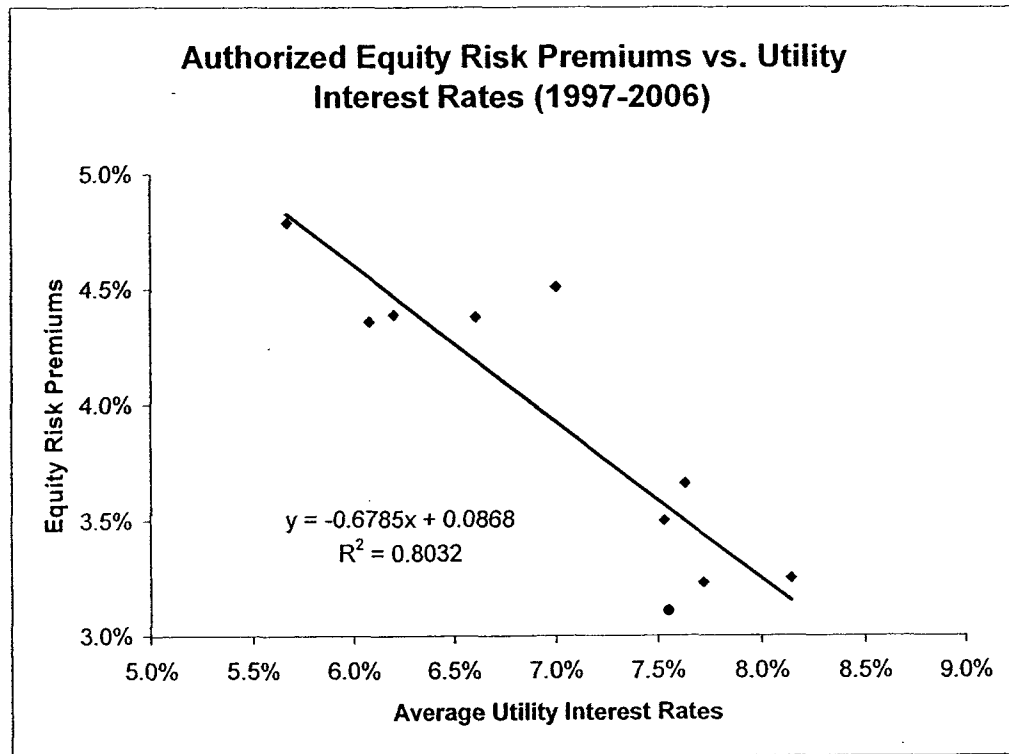
BASIC RISK PREMIUM	3.92%
INTEREST RATE ADJUSTMENT	0.62%
EQUITY RISK PREMIUM	4.54%

CURRENT TRIPLE-B UTILITY BOND YIELD	6.10%
INDICATED EQUITY RETURN	10.64%

Sources:

- (1) Moody's Investors Service
- (2) Regulatory Focus, Regulatory Research Associates, Inc.

AEP Texas Central Company
Revised Szerszen Risk Premium Analysis (Gas)
Current Interest Rates



AEP Texas Central Company
Revised Szerszen Risk Premium Analysis (Gas)
Projected Interest Rates

	MOODY'S AVERAGE PUBLIC UTILITY BOND YIELD (1)	AUTHORIZED GAS RETURNS (2)	INDICATED RISK PREMIUM
1997	7.63%	11.29%	3.66%
1998	7.00%	11.51%	4.51%
1999	7.55%	10.66%	3.11%
2000	8.14%	11.39%	3.25%
2001	7.72%	10.95%	3.23%
2002	7.53%	11.03%	3.50%
2003	6.61%	10.99%	4.38%
2004	6.20%	10.59%	4.39%
2005	5.67%	10.46%	4.79%
2006	6.08%	10.44%	4.36%
AVERAGE	7.01%	10.93%	3.92%

INDICATED COST OF EQUITY

PROJECTED TRIPLE-B UTILITY BOND YIELD*	6.60%
MOODY'S AVG ANNUAL YIELD DURING STUDY	7.01%
INTEREST RATE DIFFERENCE	-0.41%

INTEREST RATE CHANGE COEFFICIENT	-67.85%
ADJUSTMENT TO AVG RISK PREMIUM	0.28%

BASIC RISK PREMIUM	3.92%
INTEREST RATE ADJUSTMENT	0.28%
EQUITY RISK PREMIUM	4.20%

PROJECTED TRIPLE-B UTILITY BOND YIELD*	6.60%
INDICATED EQUITY RETURN	<u>10.80%</u>

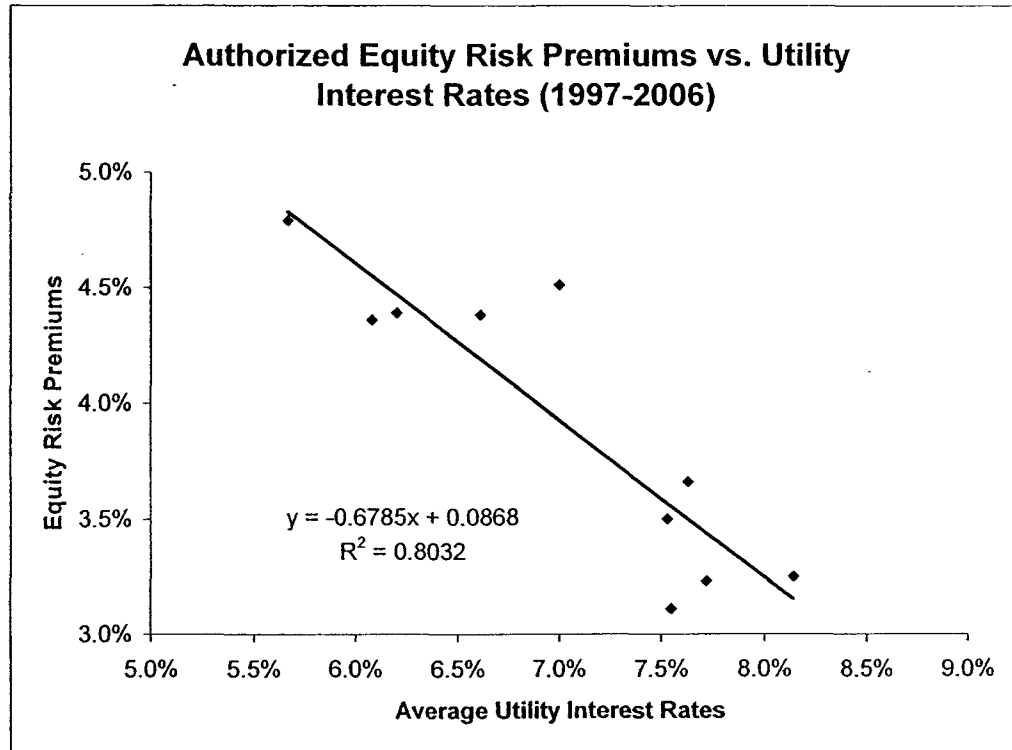
Sources:

(1) Moody's Investors Service

(2) Regulatory Focus, Regulatory Research Associates, Inc.

*The projected triple-B bond yield is equal to the projected 30-year Treasury bond rate (5.3 percent) from S&P's Trends & Projections (Exhibit SCH-2R) plus 130 basis points. The average triple-B spread over Treasuries for 2006 was 132 basis points.

AEP Texas Central Company
Revised Szerszen Risk Premium Analysis (Gas)
Projected Interest Rates



AEP Texas Central Company
Revised Gorman Two-Stage Growth DCF Model (Electric Companies)

Company	(1) Recent Price	(2) Recent Quar- terly Div*4	(3) Short-Term Growth	(4) Long-Term Growth	(5) Two-Stage Growth ROE
1 Alliant Energy Co.	38.38	1.15	5.33%	6.60%	9.43%
2 Ameren	53.62	2.54	6.80%	6.60%	11.38%
3 CH Energy Group	52.46	2.16	N/A	6.60%	N/A
4 Cent. Vermont P.S.	23.67	0.92	N/A	6.60%	N/A
5 Cleco Corporation	25.48	0.90	12.00%	6.60%	11.01%
6 Con. Edison	48.22	2.32	3.33%	6.60%	10.79%
7 DTE Energy Co.	47.39	2.06	5.71%	6.60%	10.79%
8 Duquesne Light	19.94	1.00	N/A	6.60%	N/A
9 Empire District	24.43	1.28	3.00%	6.60%	11.10%
10 Energy East Corp.	24.67	1.20	3.67%	6.60%	10.90%
11 Green Mtn. Power	34.06	1.12	N/A	6.60%	N/A
12 Hawaiian Electric	27.11	1.24	4.14%	6.60%	10.72%
13 IDACORP	37.98	1.20	5.00%	6.60%	9.53%
14 MGE Energy, Inc.	34.90	1.39	N/A	6.60%	N/A
15 NiSource Inc.	24.07	0.92	3.37%	6.60%	9.92%
16 Northeast Utilities	28.06	0.75	10.93%	6.60%	9.81%
17 NSTAR	34.29	1.30	5.72%	6.60%	10.25%
18 Pinnacle West	49.59	2.10	6.24%	6.60%	10.77%
19 PPL Corporation	35.97	1.10	10.80%	6.60%	10.24%
20 Progress Energy	48.48	2.44	4.22%	6.60%	11.16%
21 Puget Energy, Inc.	24.98	1.00	4.89%	6.60%	10.32%
22 SCANA Corp.	41.25	1.76	4.63%	6.60%	10.52%
23 Southern Co.	36.59	1.55	4.78%	6.60%	10.52%
24 Vectren Corp.	28.26	1.26	4.28%	6.60%	10.64%
25 Xcel Energy Inc.	23.31	0.89	5.77%	6.60%	10.29%
Group Average	34.69	1.42	5.73%	6.60%	10.50%

Source: Exhibit MPG-7

Note:

Column 5 equal to internal rate of return that equates dividend for 200 periods with Recent Price in Column 1. Dividends for the first six periods are equal to the dividend in Column 2 in the first period followed by this dividend escalated by the growth rate in Column 3 for the next five periods. The dividend growth rate for periods 6-200 is shown in Column 4.

AEP Texas Central Company
Revised Gorman Two-Stage Growth DCF Model (Gas Distribution Companies)

Company	(1) Recent Price	(2) Recent Quar- terly Div*4	(3) Short-Term Growth	(4) Long-Term Growth	(5) Two-Stage Growth ROE
1 AGL Resources	39.73	1.48	4.57%	6.60%	10.01%
2 Atmos Energy Corp.	31.86	1.28	5.53%	6.60%	10.44%
3 Laclede Group	34.25	1.42	3.00%	6.60%	10.15%
4 NICOR, Inc.	46.98	1.86	2.95%	6.60%	9.97%
5 N.W. Nat'l Gas	41.69	1.42	5.18%	6.60%	9.80%
6 Piedmont Nat'l	26.84	0.96	4.83%	6.60%	9.91%
7 South Jersey Inds.	33.32	0.90	6.81%	6.60%	9.28%
8 WGL Holdings	32.27	1.35	3.28%	6.60%	10.23%
Group Average	35.87	1.33	4.49%	6.60%	9.97%

Source: Exhibit MPG-7

Note:

Column 5 equal to internal rate of return that equates dividend for 200 periods with Recent Price in Column 1. Dividends for the first six periods are equal to the dividend in Column 2 in the first period followed by this dividend escalated by the growth rate in Column 3 for the next five periods. The dividend growth rate for periods 6-200 is shown in Column 4.

AEP Texas Central Company
Revised Gorman Risk Premium Analysis (Treasury Bond)

	TREASURY BOND YIELD (1)	AUTHORIZED ELECTRIC RETURNS (2)	INDICATED RISK PREMIUM
1986	7.78%	13.93%	6.15%
1987	8.59%	12.99%	4.40%
1988	8.96%	12.79%	3.83%
1989	8.45%	12.97%	4.52%
1990	8.61%	12.70%	4.09%
1991	8.14%	12.55%	4.41%
1992	7.67%	12.09%	4.42%
1993	6.59%	11.41%	4.82%
1994	7.37%	11.34%	3.97%
1995	6.88%	11.55%	4.67%
1996	6.71%	11.39%	4.68%
1997	6.61%	11.40%	4.79%
1998	5.58%	11.66%	6.08%
1999	5.87%	10.77%	4.90%
2000	5.94%	11.43%	5.49%
2001	5.49%	11.09%	5.60%
2002	5.42%	11.16%	5.74%
2003	5.02%	10.97%	5.95%
2004	5.05%	10.75%	5.70%
2005	4.65%	10.54%	5.89%
2006	4.99%	10.36%	5.37%
AVERAGE	6.68%	11.71%	5.02%

INDICATED COST OF EQUITY

PROJECTED TREASURY BOND YIELD*	5.30%
AVG TREASURY BOND YIELD DURING STUDY	6.68%
INTEREST RATE DIFFERENCE	-1.38%

INTEREST RATE CHANGE COEFFICIENT	-40.70%
ADJUSTMENT TO AVG RISK PREMIUM	0.56%

BASIC RISK PREMIUM	5.02%
INTEREST RATE ADJUSTMENT	0.56%
EQUITY RISK PREMIUM	5.59%

PROJECTED TREASURY BOND YIELD*	5.30%
INDICATED EQUITY RETURN	10.89%

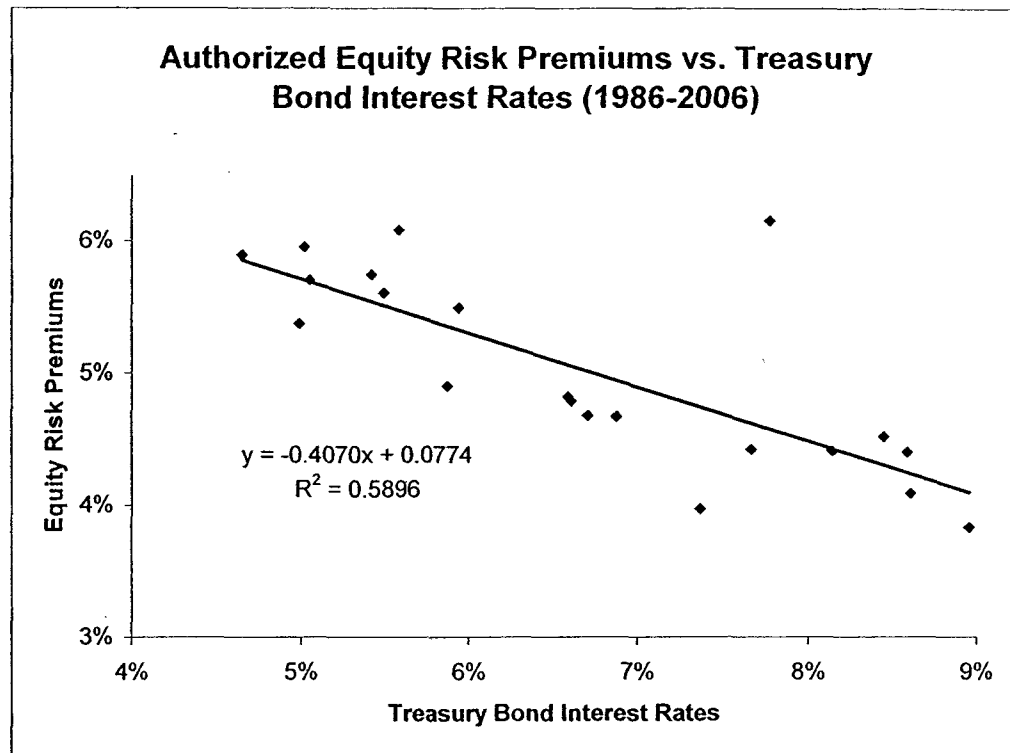
Sources:

(1) Gorman Exhibit MPG-9

(2) Regulatory Focus, Regulatory Research Associates, Inc.

*Projected Treasury bond yield from Exhibit SCH-2R.

AEP Texas Central Company
Revised Gorman Risk Premium Analysis (Treasury Bond)



AEP Texas Central Company
Revised Gorman Risk Premium Analysis (Utility Bond, Current Rates)

	AVERAGE "A" UTILITY BOND YIELD (1)	AUTHORIZED ELECTRIC RETURNS (2)	INDICATED RISK PREMIUM
1986	9.58%	13.93%	4.35%
1987	10.10%	12.99%	2.89%
1988	10.49%	12.79%	2.30%
1989	9.77%	12.97%	3.20%
1990	9.86%	12.70%	2.84%
1991	9.36%	12.55%	3.19%
1992	8.69%	12.09%	3.40%
1993	7.59%	11.41%	3.82%
1994	8.31%	11.34%	3.03%
1995	7.89%	11.55%	3.66%
1996	7.75%	11.39%	3.64%
1997	7.60%	11.40%	3.80%
1998	7.04%	11.66%	4.62%
1999	7.62%	10.77%	3.15%
2000	8.24%	11.43%	3.19%
2001	7.78%	11.09%	3.31%
2002	7.36%	11.16%	3.80%
2003	6.57%	10.97%	4.40%
2004	6.01%	10.75%	4.74%
2005	5.66%	10.54%	4.88%
2006	6.07%	10.36%	4.29%
AVERAGE	8.06%	11.71%	3.64%

INDICATED COST OF EQUITY

CURRENT TRIPLE-B UTILITY BOND YIELD	6.10%
AVG SINGLE-A BOND YIELD DURING STUDY	8.06%
INTEREST RATE DIFFERENCE	-1.96%

INTEREST RATE CHANGE COEFFICIENT	-39.49%
ADJUSTMENT TO AVG RISK PREMIUM	0.78%

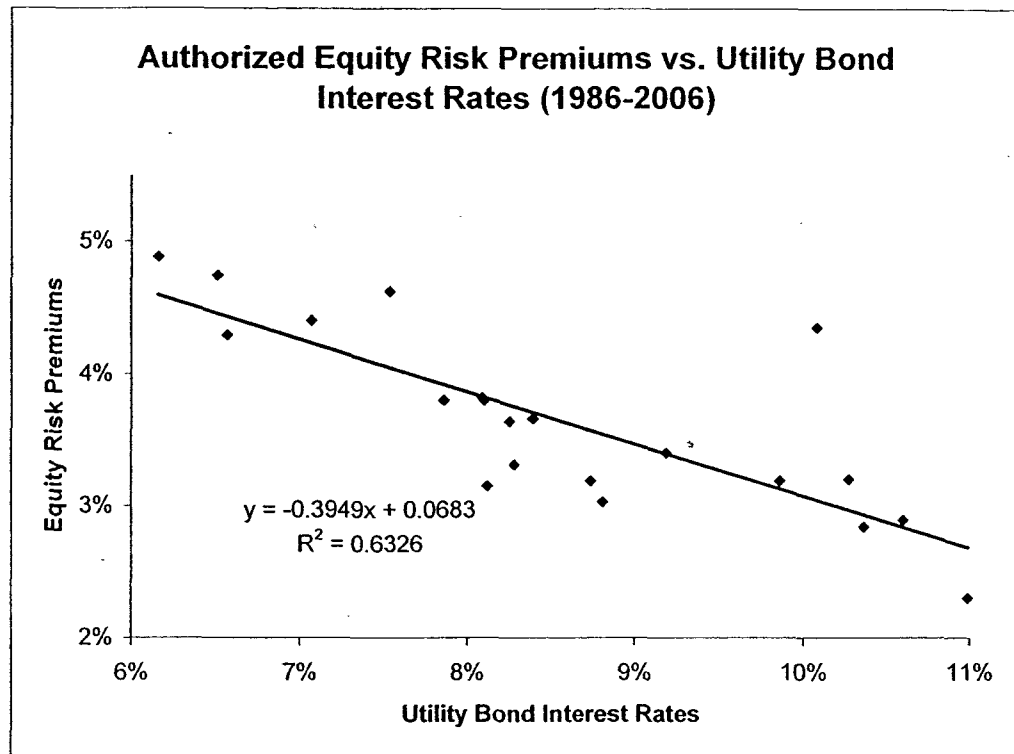
BASIC RISK PREMIUM	3.64%
INTEREST RATE ADJUSTMENT	0.78%
EQUITY RISK PREMIUM	4.42%

CURRENT TRIPLE-B UTILITY BOND YIELD	6.10%
INDICATED EQUITY RETURN	10.52%

Sources:

- (1) Gorman Exhibit MPG-10
- (2) Regulatory Focus, Regulatory Research Associates, Inc.

AEP Texas Central Company
Revised Gorman Risk Premium Analysis (Utility Bond, Current Rates)



AEP Texas Central Company

Revised Gorman Risk Premium Analysis (Utility Bond, Projected Rates)

	AVERAGE "A" UTILITY BOND YIELD (1)	AUTHORIZED ELECTRIC RETURNS (2)	INDICATED RISK PREMIUM
1986	9.58%	13.93%	4.35%
1987	10.10%	12.99%	2.89%
1988	10.49%	12.79%	2.30%
1989	9.77%	12.97%	3.20%
1990	9.86%	12.70%	2.84%
1991	9.36%	12.55%	3.19%
1992	8.69%	12.09%	3.40%
1993	7.59%	11.41%	3.82%
1994	8.31%	11.34%	3.03%
1995	7.89%	11.55%	3.66%
1996	7.75%	11.39%	3.64%
1997	7.60%	11.40%	3.80%
1998	7.04%	11.66%	4.62%
1999	7.62%	10.77%	3.15%
2000	8.24%	11.43%	3.19%
2001	7.78%	11.09%	3.31%
2002	7.36%	11.16%	3.80%
2003	6.57%	10.97%	4.40%
2004	6.01%	10.75%	4.74%
2005	5.66%	10.54%	4.88%
2006	6.07%	10.36%	4.29%
AVERAGE	8.06%	11.71%	3.64%

INDICATED COST OF EQUITY

PROJECTED TRIPLE-B UTILITY BOND YIELD*	6.60%
AVG SINGLE-A BOND YIELD DURING STUDY	8.06%
INTEREST RATE DIFFERENCE	-1.46%

INTEREST RATE CHANGE COEFFICIENT	-39.49%
ADJUSTMENT TO AVG RISK PREMIUM	0.58%

BASIC RISK PREMIUM	3.64%
INTEREST RATE ADJUSTMENT	0.58%
EQUITY RISK PREMIUM	4.22%

PROJECTED TRIPLE-B UTILITY BOND YIELD*	6.60%
INDICATED EQUITY RETURN	10.82%

Sources:

(1) Gorman Exhibit MPG-10

(2) Regulatory Focus, Regulatory Research Associates, Inc.

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Revised Gorman Risk Premium Analysis (Utility Bond, Projected Rates)

